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UNIVERSITY OF TORONTO
DEPARTMENT OF ECONOMICS

ECO2031H1, Winter 2014

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Course Information

Instructor: Ronald Wolthoff
E-mail: ronald.wolthoff@utoronto.ca
Office hours: Thu 15:00 – 16:00, GE 214 (or by appointment)
Class: Tue 9.10 – 11.00 (GE100), Thu 9.10 – 11.00 (GE100)
TA: Erhao Xie (erhao.xie@mail.utoronto.ca)

Description

This course will cover equilibrium models of markets with frictions.

Evaluation

Your grade will be determined by the final exam. There will be two homework assignments. You are encouraged to make these assignments, but they will not be graded. The solution to each assignment will be discussed by the TA in a tutorial.

Tentative Course Outline (subject to change)

Class dates: January 7, 9, 14, 16, 21, 23, 28, 30; February 4, 6, 11.
Exam: February 13, 9.10 - 11.00

The class will cover a selection of the following topics

- Background Material: Poisson processes; (continuous-time) Bellman equations; continuous-time optimization; Nash bargaining; HP filter.

- Moral Hazard in the Labor Market: Chapter 9.1-9.4 of Romer, Shapiro and Stiglitz (1984).

- Indivisible Labor: Hansen (1985), Rogerson (1988).

- Search Frictions

  - Search Models: Lucas and Prescott (1974), Pissarides (1985), Mortensen and Pissarides (1994), Chapter 1 and 2 of Pissarides (2000).
  - Efficiency: Hosios (1990), Moen (1997).
  - Business Cycles / Unemployment-Volatility Puzzle: Shimer (2005), Hagedorn and Manovskii (2008), Menzio and Shi (2011).

- Private Information in Asset Markets: Guerrieri et al. (2010), Chari et al. (2011), Chang (2012), Guerrieri and Shimer (2012).

References

Chang, B. (2012). Adverse selection and liquidity distortion in decentralized markets. mimeo.

Chari, V., Shourideh, A., and Zetlin-Jones, A. (2011). Adverse selection, reputation and sudden collapses in secondary loan markets. mimeo.

Guerrieri, V. and Shimer, R. (2012). Dynamic adverse selection: A theory of illiquidity, fire sales, and flight to quality. mimeo.

Guerrieri, V., Shimer, R., and Wright, R. (2010). Adverse selection in competitive search equilibrium. *Econometrica*, 78(6):1823–1862. mimeo.

Hagedorn, M. and Manovskii, I. (2008). The cyclical behavior of equilibrium unemployment and vacancies revisited. *American Economic Review*, 98:1692–1706.

Hansen, G. D. (1985). Indivisible labor and the business cycle. *Journal of Monetary Economics*, 16(3):309–327.

Hosios, A. K. (1990). On the efficiency of matching and related models of search and unemployment. *Review of Economic Studies*, 57:279–298.

Lucas, R. E. and Prescott, E. C. (1974). Equilibrium search and unemployment. *Journal of Economic Theory*, 7(2):188–209.

Menzio, G. and Shi, S. (2011). Efficient search on the job and the business cycle. *Journal of Political Economy*, 119:468–510.

Moen, E. R. (1997). Competitive search equilibrium. *Journal of Political Economy*, 105:385–411.

Mortensen, D. T. and Pissarides, C. A. (1994). Job creation and job destruction in the theory of unemployment. *Review of Economic Studies*, 61:397–415.

Pissarides, C. A. (1985). Short-run equilibrium dynamics of unemployment, vacancies and real wages. *American Economic Review*, 75:676–690.

Pissarides, C. A. (2000). *Equilibrium Unemployment Theory*. Oxford University Press.

Rogerson, R. (1988). Indivisible labor, lotteries and equilibrium. *Journal of Monetary Economics*, 21(1):1–16.

Shapiro, C. and Stiglitz, J. E. (1984). Equilibrium unemployment as a worker discipline device. *American Economic Review*, 74(3):433–444.

Shimer, R. (2005). The cyclical behavior of equilibrium unemployment and vacancies. *American Economic Review*, 95(1):25–49.