

**UNIVERSITY OF TORONTO
DEPARTMENT OF ECONOMICS**

ECO2021H1, Fall 2019

Course Information

Instructor: Ronald Wolthoff

E-mail: ronald.wolthoff@utoronto.ca

Office hours: Thu 15:00 – 16:00, GE 214 (or by appointment)

Class: Mon 9.10 – 11.00 (WW 121), Wed 9.10 – 11.00 (GE 100)

TA: Frank Leenders (frank.leenders@mail.utoronto.ca)

Tutorial: Wed 16.00 – 18.00 (FE 135)

Description

This course will cover equilibrium models of markets with frictions.

Evaluation

Your grade will be determined by the final exam (80%) and two homework assignments (10% each).

Tentative Course Outline (subject to change)

Class dates: October 23, 28, 30; November 11, 13, 18, 20, 25, 27; December 2, 4.

Exam: TBA

The class will cover a selection of the following topics

- Background Material: Dynamic programming; 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), Guerrieri and Shimer (2012), Chang (2018).

References

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- 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.
- 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.
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- 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.
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- 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.