

ECO 2031 - Macroeconomic Theory II SYLLABUS

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Objectives

This course covers important models in consumption and savings literature; especially those include heterogeneity due to income risk and incomplete insurance markets. The main focus of the course will be on theoretical and quantitative analysis of these models. The students will learn to characterize theoretically and compute these models in MATLAB.

Lectures: Mondays & Wednesdays 9-11am.

Office Hours:

My office hours are on **11am on Wednesdays**. Outside my office hours you can contact me via e-mail at burhan.kuruscu@utoronto.ca, *although* at busy times you will get a prompter response if you stop by during the office hours.

Zoom Link for Lectures and Office Hours: <https://utoronto.zoom.us/j/81798308863>

Teaching Assistant: Guangbin (Jeremy) Hong. **Email:** g.hong@mail.utoronto.ca

Teaching assistant's task is to teach you how to solve models in Matlab, help you with the project and grade it. He will hold tutorials and by-appointment office hours to conduct these tasks. Any questions regarding course material should be directed to me.

Required Material:

You are required to install student version of **MATLAB**.

<https://www.mathworks.com/academia/tah-portal/university-of-toronto-676468.html>

E-mail list: You are automatically added to the class email list if you are registered for this course. This email list will be the main way I will make announcements and communicate with the class.

Blackboard: Please check the blackboard frequently for course materials and announcements.

Course Requirements and Grading

Two projects: First project will be 40% and the second 60% of the total grade in this section. The first project can be done in groups of two students. The second one should be done individually.

Class Participation: You should feel comfortable to ask any questions if you cannot follow my lectures or you do not understand something.

OUTLINE: The Role of Heterogeneity in the Macroeconomy

Heterogeneity under complete markets

1. Distribution of wealth and the behavior of aggregates under complete markets.
6. Mian, A., Straub, L., and Sufi, A. "Indebted Demand," working paper.

Models with incomplete markets

Exogenous market incompleteness and exogenous borrowing constraints

2. A. Huggett, M. "The risk-free rate in heterogeneous-agents, incomplete insurance economies," *Journal of Economic Dynamics and Control*, 1993, 17 (5/6), 953-970.
B. A simple model of bond pricing.
C. Aiyagari, S. R. "Uninsured idiosyncratic risk, and aggregate saving." *Quarterly Journal of Economics*, 1994, Vol. 109, 659-684.
3. Davila, J., Hong, J., Krusell P., and Rios-Rull, V. "Constrained Efficiency in the Neoclassical Growth Model with Uninsurable Idiosyncratic Risk," *Econometrica*, Vol. 8, No. 6, 2012, 2431-2467.
4. A. Transition in the Aiyagari Model.
B. Krusell, P. and A. Smith, "Income and wealth heterogeneity in the macroeconomy," *Journal of Political Economy*, 1998, Vol. 106, pp. 867-896.
5. Straub, L. "Consumption, Savings, and the Distribution of Permanent Income," working paper.
7. Guerrieri, V., Lorenzoni, G., Straub, L., and Werning, I. "Macroeconomic Implications of Covid-19: Can Negative Supply Shocks Cause Demand Shortages?," working paper.

Policy Analysis

8. A. Guvenen, F., G. Kambourov, B. Kuruscu, S. Ocampo Diaz, and D. Chen, “Use It or Lose It: Efficiency Gains from Wealth Taxation”, working paper.

B. Guvenen, F., G. Kambourov, B. Kuruscu, and S. Ocampo Diaz, “Efficiency Gains from Wealth Taxation: A Theoretical Analysis,” working paper.

Endogenous Borrowing Constraints

9. Arrelano, C. “Default Risk and Income Fluctuations in Emerging Economies,” American Economic Review, June 2008.

10. Krueger, D. and Perri, F. “Does Income Inequality Lead to Consumption Inequality? Evidence and Theory,” The Review of Economics Studies, 2006.

11. Arslan, Y., B. Guler, and B. Kuruscu “Credit Supply Driven Boom-Bust Cycles,” 2020, working paper.