

ECON 496
ADVANCED MACROECONOMICS
Department of Economics
University of Waterloo
Winter 2020

Meetings

Lecture time: 8:30 – 9:50

Lecture location: HH 2107

Instructor information

Instructor: Francisco M. Gonzalez

Office: Hagey Hall 130

Office hours: Monday and Wednesday, 11:30 – 12:30

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Course description

Calendar description: This course provides students with the methodological principles that underlie modern analyses of the macro-economy, and prepares students for graduate-level macroeconomic theory courses.

The Winter 2020 version of ECON 496 will focus on the role of debt in the macro-economy.

Evaluation

Student performance will be evaluated as follows:

Assignments: 60%

Take-home exam: 40%

Below is a list of assignments and their due dates. Late submission of assignments is not accepted, unless there are extenuating circumstances. Detailed information about assignments and the take-home exam will be provided in class.

Course outline

Optimal portfolio choice and asset pricing

Cochrane, John: *Asset Pricing*, 2001, Princeton, NJ: Princeton University Press.

The Modigliani-Miller theorem

Stiglitz, Joseph: “A re-examination of the Modigliani-Miller theorem,” *American Economic Review*, December 1969, 784-793.

Optimal debt contracts

Diamond, Douglas: “Financial Intermediation and Delegated Monitoring,” *Review of Economic Studies*, July 1984, 393-414.

Lacker, Jeffrey: “Why is there debt?” *Federal Reserve Bank of Richmond Economic Review*, July/August 1991, 3-19.

Banking crises

Diamond, Douglas and Philip Dybvig: “Bank runs, liquidity, and deposit insurance,” *Journal of Political Economy*, June 1983, 401-419.

Allen, Franklin and Douglas Gale: “Optimal financial crises,” *Journal of Finance*, August 1998, 1245-1284.

The Great Recession

Gorton, Gary and Andrew Metrick: “Securitized banking and the run on repo,” *Journal of Financial Economics*, June 2012, 425-451.

Krishnamurthy, Arvind, Stefan Nagel and Dmitry Orlov: “Sizing up repo,” *Journal of Finance*, December 2014, 2381-2416.

Bank Opacity

Dang Tri Vi, Gary Gorton, Bengt Holmström and Guillermo Ordoñez: “Banks as secret keepers,” *American Economic Review*, April 2017, 1005-1029.

Money markets

Holmström, Bengt: “Understanding the role of debt in the financial system,” January 2015, BIS working paper no. 479.

Assignments

1. Discuss Diamond (1984) (due February 3).
2. Discuss Lacker (1991) (due February 10).
3. Discuss Diamond and Dybvig (1983) (due February 24).
4. Discuss Allen and Gale (1998) (due March 2).
5. Discuss Gorton and Metrick (2012) and Krishnamurthy et al. (2014) (due March 9).
6. Discuss Bird & Fortune – Silly Money – Investment Bankers (16:31) (due March 16).
7. Discuss Dang et al. (2017) (due March 23).
8. Discuss Holmstrom (2015) (due March 30).

Weekly schedule

Week 1 (Jan. 6, Jan 8): portfolio choice

Week 2 (Jan. 13, Jan. 15): asset pricing

Week 3 (Jan. 20, Jan. 22): Modigliani-Miller theorem

Week 4 (Jan. 27, Jan. 29): optimal debt I

Week 5 (Feb. 3, Feb. 5): optimal debt II

Week 6 (Feb. 10, Feb. 12): optimal debt III

Week 7 (Feb. 17, Feb. 19):

Feb. 17: FAMILY DAY

Feb. 19: READING WEEK

Week 8 (Feb. 24, Feb. 26): banking crises I

Week 9 (March 2, March 4): banking crises II

Week 10 (March 9, March 11): the Great Recession I

Week 11 (March 16, March 18): the Great Recession II

Week 12 (March 23, March 25): bank opacity

Week 13 (March 30, April 1): money markets vs. stock markets

Statements and links to be included on all course outlines:

[Economics Department Deferred Final Exam Policy](#)

Cross-listed course

Please note that a cross-listed course will count in all respective averages no matter under which rubric it has been taken. For example, a PHIL/PSCI cross-list will count in a Philosophy major average, even if the course was taken under the Political Science rubric.

Academic Integrity

Academic Integrity: In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility. See the [UWaterloo Academic Integrity](#) webpage and the [Arts Academic Integrity](#) webpage for more information.

Discipline: A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating) or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 – Student Discipline. For information on categories of offenses and types of penalties, students should refer to [Policy 71 - Student Discipline](#). For typical penalties check [Guidelines for the Assessment of Penalties](#).

Grievance: A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. [Read Policy 70 - Student Petitions and Grievances](#), Section 4. When in doubt, please be certain to contact the department’s administrative assistant who will provide further assistance.

Appeals: A decision made or penalty imposed under Policy 70 - Student Petitions and Grievances (other than a petition) or Policy 71 - Student Discipline may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to [Policy 72 - Student Appeals](#).

Accommodation for Students with Disabilities

Note for students with disabilities: [The AccessAbility Services office](#), located on the first floor of the Needles Hall extension (1401), collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the AS office at the beginning of each academic term.

If you are using Turnitin® in your course

Turnitin.com: Text matching software (Turnitin®) will be used to screen assignments in this course. This is being done to verify that use of all material and sources in assignments is documented. Students will be given an option if they do not want to have their assignment

screened by Turnitin®. In the first week of the term, details will be provided about arrangements and alternatives for the use of Turnitin® in this course.

Note: students must be given a reasonable option if they do not want to have their assignment screened by Turnitin®. See [guidelines for instructors](#) for more information.

Outlines for ECON 101 and 102 must include the following statement:

It is the responsibility of students to ensure that they write exams in the location, date, and time assigned to their section. Students writing exams in the wrong section will be assessed a 20% penalty on the final exam grade. There will be no accommodation for possible differences in exam material or content.

(The above statement is also recommended for ECON 201, 206 and 207)

NEW – Recommended statements to be included on course outlines

Mental Health Support

All of us need a support system. The faculty and staff in Arts encourage students to seek out mental health supports if they are needed.

On Campus

- Counselling Services: counselling.services@uwaterloo.ca / 519-888-4567 ext 32655
- [MATES](#): one-to-one peer support program offered by Federation of Students (FEDS) and Counselling Services
- Health Services Emergency service: located across the creek from Student Life Centre

Off campus, 24/7

- [Good2Talk](#): Free confidential help line for post-secondary students. Phone: 1-866-925-5454
- Grand River Hospital: Emergency care for mental health crisis. Phone: 519-749-433 ext. 6880
- [Here 24/7](#): Mental Health and Crisis Service Team. Phone: 1-844-437-3247
- [OK2BME](#): set of support services for lesbian, gay, bisexual, transgender or questioning teens in Waterloo. Phone: 519-884-0000 extension 213

Full details can be found online at the Faculty of ARTS [website](#)

Download [UWaterloo and regional mental health resources \(PDF\)](#)

Download the [WatSafe](#) app to your phone to quickly access mental health support information

Territorial Acknowledgement

We acknowledge that we are living and working on the traditional territory of the Attawandaron (also known as Neutral), Anishinaabeg and Haudenosaunee peoples. The University of Waterloo is situated on the Haldimand Tract, the land promised to the Six Nations that includes six miles on each side of the Grand River.