

1 ECON-GA 2404— Adv. Macroeconomics II (Growth & Distribution))

Fall 2018 J. Benhabib

Course Requirement: A Research Paper on a Topic Related to the Course

Topics I hope to cover, though the order may change (to be discussed in first class):

1. Models of Technology Diffusion with Search (Lucas, Lucas and Moll, Perla-Tonetti, Staley, some new stuff)
 2. Wealth Distribution, Theory and Empirics, Fat Tails and briefly and relatedly, Learning in Asset Markets/Volatility.
 3. Sentiments, Information Theory and Correlated Equilibria in Macro and Finance.
 4. Multiple Equilibria arising in modern Growth Theories, Monetary Models and Taylor Rules, recent Search Models, Models with Finance Constraints and Collateral Constraints, Adverse Selection, OLG.
 5. Optimal Capital Taxation
 6. Institutions and Growth+Political Economy Models.
- More may/will be added throughout the semester.

1.1 READINGS

1.1.1 Reading for 1: Technology Diffusion

European Commission, *European Employment In Europe 2006*, "Human Capital, Technology and Growth in the EU Member States," Chapter 4, at

http://ec.europa.eu/employment_social/employment_analysis/eie/eie2006_chap4_en.pdf

(Full report at http://ec.europa.eu/employment_social/employment_analysis/employ_2006_en.htm)

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Lucas, R., "Ideas and Growth," *Economica* (2009) 76, 1–19,

<http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0335.2008.00748.x/pdf>

Lucas, R. E., and B. Moll (2012): "Knowledge Growth and the Allocation of Time," <http://www.nber.org/papers/w17495.pdf>

Jesse Perla and Chris Tonetti, "Catch-up and Fall-Back Through Innovation and Imitation", *Journal of Economic Growth*, 19, 2014, 1-35, <http://www.nber.org/papers/w18091E>

Benhabib, J., Perla, J., and C. Tonetti, 2014, "Catch-up and fall-back through innovation and imitation", *JOEG*, DOI 10.1007/s10887-013-9095-z

Benhabib, J., Perla, J., and C. Tonetti, 2015, "The Growth Dynamics of Innovation, Diffusion, and the Technology Frontier",

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Jones, Charles I. and Jihee Kim 2017 *forthcoming*. A Schumpeterian Model of Top Income Inequality. *Journal of Political Economy*.

Staley, Mark 2011. Growth and the diffusion of ideas. *Journal of Mathematical Economics*.

Mc Kean, Henry P., 1975. Applications of brownian motion to the equation of Kolmogorov-Petrovski-Piscounov. *Commun. Pure Appl. Math*, Volume 28, 323-331.

Bramson. M.,1983, "Convergence of solutions of the Kolmogorov equation to travelling waves," *Memoirs of the American Mathematical Society* Number 285,Vol. 44, Chapter 1.

1.1.2 Readings for 2: Wealth Distribution

Benhabib, J., Alberto Bisin, Mi Luo, 2015. "Wealth Distribution and Social Mobility in the US: A Quantitative Approach," <http://www.nber.org/papers/w21721>

Benhabib, J. and Alberto Bisin, forthcoming, "Skewed Wealth Distributions," *Journal of Economic Literature*.

Benhabib, Alberto Bisin and Shenghao Zhu, "The distribution of wealth and fiscal policy in economies with finitely lived agents" , *Econometrica* (79) 2011, 123-157. http://www.econ.nyu.edu/user/benhabib/pareto_finitelife_parisNY23.pdf

Benhabib, Alberto Bisin and Shenghao Zhu "The Wealth Distribution in Bewley Models with Capital Income" (with Alberto Bisin and Shenghao Zhu), forthcoming, *Journal of Economic Theory*, 2016.

<http://www.econ.nyu.edu/user/benhabib/lineartailNBER-07-22-14.pdf>

Benhabib, Alberto Bisin and Shenghao Zhu , "The Distribution of Wealth in the Blanchard-Yaari Model," with Shenghao Zhu and Alberto Bisin, *Macroeconomic Dynamics*, <http://dx.doi.org/10.1017/S1365100514000066>

Alberto Bisin and Mi Luo, 2017, "Earnings Inequality and Other Determinants of Wealth Inequality," *American Economic Review Papers & Proceedings* 107, 593-97. <http://www.econ.nyu.edu/user/benhabib/P&P3.pdf>

Achdou, Y., Han, J., Lasry, J-M., Lions, P-L, and B. Moll, (2014). "Heterogeneous Agent Models in Continuous Time,"

<http://www.princeton.edu/~moll/HACT.pdf>

Gabaix, X., Lasry, J-M., Lions, P-L, and B. Moll, "The Dynamics of Inequality," <http://www.princeton.edu/~moll/dynamics.pdf>

G. S. Becker and N. Tomes (1979): "An Equilibrium Theory of the Distribution of Income and Intergenerational Mobility," *Journal of Political Economy*, 87, 6, 1153-1189.

Aiyagari, S. R. (1994), "Uninsured Idiosyncratic Risk and Aggregate Saving", *Quarterly Journal of Economics*, Vol. 109, 659-684.

P. Krusell and A. A. Smith (1998): 'Income and Wealth Heterogeneity in the Macroeconomy,' *Journal of Political Economy*, 106, 867-896.

M. Huggett (1996): *Journal of Monetary Economics*, "Wealth Distribution in Life-Cycle Economies," 38, 469-494.

V. Quadrini (2000): 'Entrepreneurship, Savings and Social Mobility,' *Review of Economic Dynamics*, 3, 1-40.

Vincenzo Quadrini and Jose-Victor Rios-Rull. (1997) "Models of the distribution of wealth." *Federal Reserve Bank of Minneapolis Quarterly Review*,

21(2):121, Spring 1997.

A. Castaneda, J. Diaz-Gimenez, and J.V. Rios-Rull (2003): 'Accounting for the U.S. Earnings and Wealth Inequality,' *Journal of Political Economy*, 111, 4, 818-57.

De Nardi, M. (2004) "Wealth Inequality and Intergenerational Links." *Review of Economic Studies*, 71(3):743-768.

M. Cagetti and M. De Nardi (2003): 'Entrepreneurship, Frictions, and Wealth,' *Federal Reserve Bank of Minneapolis Staff Report 322*, September 2003.

M. Cagetti and M. De Nardi (2005): 'Wealth Inequality: Data and Models,' *Federal Reserve Bank of Chicago, W.P. 2005-10*.

Benhabib, J. and Bisin, A. "The distribution of wealth and redistributive policies," March 2006, <http://www.econ.nyu.edu/user/benhabib/parvolt3.PDF>

Benhabib, J. and Zhu, S. "Age, Luck and Inheritance" December 2007. <http://www.econ.nyu.edu/user/benhabib/Investment71.pdf>

Learning in Asset Markets and Fat Tails: J. Benhabib and C. Dave, "Learning, Large Deviations and Rare Events", *Review of Economic Dynamics*, 17(3), 2014,367-382, <http://www.sciencedirect.com/science/article/pii/S1094202513000501>

1.1.3 Readings for 3: Sentiments, Correlated Equilibria etc.

Morris, S. and Shin, H. S., 1998. "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks", *American Economic Review*, 88, 587-597.

Aumann, Robert J., Peck, James and Karl Shell,1988. "Asymmetric Information and Sunspot Equilibria: A Family of Simple Examples", CAE Working Paper #88-34

Maskin, E. and Tirole, J., 1987, "Correlated Equilibria and Sunspots", *Journal of Economic Theory* 43, 364-373

Angeletos, G-M., and La'O, J., 2012. "Sentiments," *Econometrica* 81, 739-780

Benhabib, J., Pengfei Wang and Yi Wen, "Uncertainty and Sentiment-Driven Equilibria", 2013, NBER Working Paper w18878.

<http://www.econ.nyu.edu/user/benhabib/Aggregate%20Sentiment19.pdf>

Benhabib, J., Pengfei Wang and Yi Wen, "Sentiments and Aggregate Fluctuations", *Econometrica* 83, 2015, pages 549–585.

Benhabib, J., Pengfei Wang, "Private Information and Sunspots in Sequential Asset Markets," *Journal of Economic Theory*, 158, Part B, 2015, 558–584.

<http://www.econ.nyu.edu/user/benhabib/pvt%20info%20seq%20mkt%20sunspots.pdf>

Benhabib, Jess, Xuewen Liu and Pengfei Wang, "Endogenous Information Acquisition and Countercyclical Uncertainty", *Journal of Financial Economics*, 2016, 120, 420–443. <http://www.econ.nyu.edu/user/benhabib/Draft%203-9.pdf>

Benhabib, J. and Mark Spiegel, "Sentiments and Economic Activity: Evidence from U.S. States," 2018, forthcoming, *Economic Journal*

http://www.econ.nyu.edu/user/benhabib/Benhabib%20Spiegel%20Sentiments%20and%20Economic%20Activity_2_7_18.pdf

1.1.4 Readings for 3, Multiple Equilibria:

a) For Background Reading Stuff Blanchard, O.J. (1985) "Debt, deficits, and finite horizons." *Journal of Political Economy* 93, 223–247.

Peter Howitt & R. Preston McAfee, 1988. "Stability of Equilibria with Externalities," *The Quarterly Journal of Economics*, Oxford University Press, vol. 103(2), pages 261-277

Kaplan, Greg, and Guido Menzio. "Shopping Externalities and Self-Fulfilling Unemployment Fluctuations". *Journal of Political Economy* (Forthcoming). http://scholar.princeton.edu/sites/default/files/gkaplan/files/kaplan_menzio_1_wp_2014.pdf

Lucas, R. (1988), "The Mechanics of Development," *Journal of Monetary Economics* 22, 3-42.

Romer, P. (1990), "Endogenous Technological Change," *Journal of Political Economy* 98, s71-s102.

Aghion, P., and P. Howitt, *Endogenous Growth Theory*, Chapters 1, 2. (1999), MIT Press.

Benhabib, J. and R. Farmer, "Indeterminacy and Increasing Returns," (with Roger Farmer), *Journal of Economic Theory*, 63, (1994), 19-41.

Benhabib, J. and R. Perli, "Uniqueness and Indeterminacy: On the Dynamics of Endogenous Growth," (with R. Perli), *Journal of Economic Theory*, 63, (1994), 113-142.

Benhabib, J. and Y. Wen, "Indeterminacy, Aggregate Demand and the Real Business Cycle," *Journal of Monetary Economics*, , 51, 503-530, 2004.

Benhabib, J. and R. Farmer, "Indeterminacy and Sunspots in Macroeconomics," *Handbook for Macroeconomics*, eds. John Taylor and Michael Woodford, North-Holland, New York, volume 1A, 387-448, 1999

b) New Applications Sniekers, F.J.T., 2015. "Persistence and volatility of Beveridge cycles," <https://dl.dropboxusercontent.com/u/48419192/Sniekers-BeveridgeCyclesR%26R.pdf> (SEARCH)

Benhabib, J, Stephanie Schmitt-Grohe and Martin Uribe "The Perils of Taylor Rules," *Journal of Economic Theory*, Vol. 96, Jan 2001,40-69 (MONETARY POLICY, ZLB)

Michael Woodford, Stationary sunspot equilibria in a finance constrained economy, *JET*, 1986 [http://dx.doi.org/10.1016/0022-0531\(86\)90011-6](http://dx.doi.org/10.1016/0022-0531(86)90011-6) (FINANCE CONSTRAINTS)

Benhabib J. and Pengfei Wang, "Financial Constraints, Endogenous Markups and Self Fulfilling Equilibria" , *Journal of Monetary Economics* 60 (2013) 789-805, NBER

<http://www.nber.org/papers/w18074> (COLLATERAL CONSTRAINTS)

Benhabib, J., Feng Dong and Pengfei Wang, "Adverse Selection and Self-fulfilling Business Cycles" *Journal of Monetary Economics*, 2018.

http://www.econ.nyu.edu/user/benhabib/Adverse_Selection_final.pdf

1.1.5 Readings for 5: Optimal Capital Taxes

Bassetto, Marco and Jess Benhabib. 2006. "Redistribution, taxes, and the Median Voter." *Review of Economic Dynamics* 9 (2):211 - 223.

Benhabib, Jess and Bálint Szóke. 2018. "Optimal Positive Capital Taxes at Interior Steady States," NYU working paper.

Chamley, Christophe. 1986. "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives." *Econometrica* 54 (3):607-622.

Chari, V. V., Pedro Teles, and Juan Nicolini. 2016. "More on the Optimal Taxation of Capital." Tech.rep.

Judd, Kenneth L. 1985. "Redistributive taxation in a simple perfect foresight model." *Journal of Public Economics* 28 (1):59 - 83.

Lansing, Kevin J. 1999. "Optimal redistributive capital taxation in a neo-classical growth model." *Journal of Public Economics* 73 (3):423 - 453.

Reinhorn, Leslie J. 2016. "On optimal redistributive capital taxation." Ce-gap working papers, Durham University Business School.

Straub, Ludwig and Ivan Werning. 2014. "Positive Long Run Capital Taxation: Chamley-Judd Revisited." Working Paper 20441, National Bureau of Economic Research.

Werning, Ivan. 2007. "Optimal Fiscal Policy with Redistribution." *The Quarterly Journal of Economics* 122 (3): 925-967.

1.1.6 Readings for 6.

a) Institutions and Growth Hall, Robert E. and Charles I. Jones. "Why Do Some Countries Produce so Much More Output per Worker than Others?" *Quarterly Journal of Economics*, 1999, 114:1, 83-116.

Acemoglu, Daron, James A. Robinson and Simon Johnson "The Colonial Origins of Comparative Development: An Empirical Investigation," December 2001, *American Economic Review*, v. 91, pp. 1369-1401.

Sachs, Jeffrey D. and Warner, Andrew M., "Economic Convergence and Economic Policies," 1995, NBER Working Paper No. 5039, Cambridge.

Daron Acemoglu, Simon Johnson, James A. Robinson, and Pierre Yared, "Income and Democracy," *American Economic Review*, 98(3), June 2008: pp. 808-42.

Barro, R. "Democracy and Growth," *Journal of Economic Growth*, Volume 1, Number 1, 1-27. <http://www.springerlink.com/content/r4823288251720r3/>

Przeworski, A. "Modernization: Theories and Facts," *World Politics*, Vol. 49, No. 2 (Jan., 1997), pp. 155-183.

<http://www.jstor.org/stable/pdfplus/25053996.pdf?acceptTC=true>

Benhabib, Jess & Corvalan, Alejandro & Spiegel, Mark M., 2013. "Income and democracy: Evidence from nonlinear estimations," *Economics Letters*, Elsevier, vol. 118(3), pages 489-492.

J. Benhabib, A. Corvalan and M. Spiegel, "Re-establishing the Income-Democracy Nexus," with Alejandro Corvalan and Mark Spiegel, NBER Working Paper 16832.

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b) Political Economy Models Tornell, A. and A. Velasco (1992), "Why Does Capital Flow from Poor to Rich Countries?: Interest Groups and Dynamic Games in Poor Countries," *Journal of Political Economy* 100, 1208-1231.

Benhabib, Jess and Aldo Rustichini. "Social Conflict, Growth and Income Distribution," *Journal of Economic Growth*, Vol. 1, (1996), 125-142.

Benhabib, Jess and Adam Przeworski, "The Political Economy of Redistribution under Democracy," *Economic Theory*, 29,2006, 271-290,

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