Topics in Empirical Macroeconomics and Finance

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“Chance favors only the prepared mind.” (Louis Pasteur, 1822-1895)

Lectures Tuesdays and Thursdays, 10:30-11:45am. Bunche Hall 9383.

Office hours Email me for an appointment.

Website https://moodle2.sscnet.ucla.edu/course/view/18S-ECON221C-1

Grading First, I will ask you to replicate two empirical macro or/and finance papers, using publicly available data (e.g. national accounts, Compustat, CRSP, Nielsen Scanner data, other WRDS material, etc.), but for which the replication code was not made available online by the authors (or not fully). I shall give you a list of papers among which to choose at the very beginning of the quarter. See the preliminary timetable on page 15 for deadlines. I believe that the best way to learn empirical methods in macroeconomics and finance is to “get your hands dirty”, and practice working with data. The first replication exercise will count towards 40% of your final grade, and the second will count towards 40%. Second, I will ask you to present a recent paper in empirical macroeconomics during the last two lectures. (30 minutes each) Again, I will give you a list from which to choose. This will count towards 20% of your final grade.

Course outline This course will follow an inductive, or bottom-up, approach. Whenever possible, I will start from the facts, and review different theories in light of these facts. I will particularly emphasize empirical observations that have not been explained by currently discussed theories. My hope is that you will find here some inspiration for a dissertation topic. The course will constitute of four parts:

1. Evidence-based macroeconomics (4 topics) The first part of the course will introduce you to empirical methods in macroeconomics. We will discuss identification in macroeconomics through structural, narrative, and cross-sectional approaches; and compare the merits of these various approaches. These methods will be used throughout the rest of the class.

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11“La chance ne sourit qu’aux esprits bien préparés.”
2. **Consumption, Investment, the Trade Balance and Asset Pricing (5 topics)**  
The second part of the class will be structured around empirical “puzzles”, which cannot  
be explained with neoclassical theories of consumption, investment, the trade balance  
and asset pricing (including exchange rates).

3. **Low interest rate macroeconomics (4 topics)** The third part will present evidence  
in favor of the “savings glut” hypothesis, and present overlapping-generations and some  
other models of “underconsumption”. I will also discuss issues of secular stagnation,  
competitiveness and external balance.

4. **Heterogeneity and macroeconomics (4 topics)** Finally, the last part of the course  
will focus on evidence and models of firm size and productivity heterogeneity, the labor  
income distribution, etc. I will finally cover some static optimal taxation.

**Textbooks** I will assume that you have basic knowledge of first year macroeconomics  
and finance, which can be found in many different textbooks. For macroeconomics, I would  
recommend:

- Gali, Jordi. Monetary Policy, Inflation, and the Business Cycle: An Introduction to the  
  Press, 2015. [Link]

If you are interested in how macroeconomics is used in practice, I strongly recommend:

- Bénassy-Quéré, Agnès, Benoît Coeuré, Pierre Jacquet, and Jean Pisani-Ferry. Economic  
  2013. [Link]

For finance, I would advise two excellent and complementary textbooks:

- Campbell, John Y. Financial Decisions and Markets: A Course in Asset Pricing. Prince-
  ton University Press, 2017. [Link]
  [Link]

**Bibliography**

Articles with a symbol will be covered during class. The list of articles may change during  
the quarter.
Methodology


Part I

Evidence-based macroeconomics

1 Causality in macroeconomics


2 Model-based identification / Structural VARs


3 Narrative approach and case/event studies


4 Cross-sectional data and model based aggregation


Beraja, Martin. “Counterfactual Equivalence in Macroeconomics”, WP 2017. Link
Chodorow-Reich, Gabriel. “Geographic Cross-Sectional Fiscal Spending Multipliers: What Have We Learned?”, WP 2017. Link

**Part II**

**Consumption, Investment, Asset Pricing and the Trade Balance**

**5 Investment: benchmark and puzzles**

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6 Asset pricing: benchmark and puzzles


Cochrane, John H. Asset Pricing, Part 1. YouTube Online Courses. [Link](#)

Cochrane, John H. Asset Pricing, Part 2. YouTube Online Courses. [Link](#)

Cochrane, John H. “Macro-Finance.” Review of Finance 21, no. 3 (May 1, 2017): 945–85. [Link](#)

7 Investment and financial frictions


8 Asset pricing and financial frictions


9 Behavioral asset pricing


Part III

Low interest rates macroeconomics

10 The New Keynesian Model and the Liquidity Trap


11 Measuring the marginal product of capital


12 OLG models, public debt, rational bubbles


Samuelson, Paul A. “An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money.” Journal of Political Economy 66, no. 6 (1958): 467–82. [Link]


13  Low interest rates: demand or supply


14  External balance and competitiveness

Keynes, John Maynard. The Economic Consequences of the Peace, 1919. Link

Keynes, J. Essays in Persuasion. Springer, 1931. Link


Part IV

Heterogeneity and macro

15  Size / wage distributions: evidence


16 Size / wage distributions: dynamic theories


17 Size / wage distributions: assignment models


18 Static optimal taxation


# Tentative Course Time Table - Spring 2018

## I - Evidence-based macroeconomics

1. Causality in macroeconomics  
   April 3, 2018
2. Model-based identification / Structural VARs  
   April 5, 2018
3. Narrative approach and case/event studies  
   April 10, 2018
4. Cross-sectional data and model based aggregation  
   April 12, 2018

## II - Consumption, Investment, Asset Pricing and the Trade Balance

5. Investment: benchmark and puzzles  
   April 17, 2018
6. Asset pricing: benchmark and puzzles  
   April 19, 2018
7. Investment and financial frictions  
   April 24, 2018
8. Asset pricing and financial frictions  
   April 26, 2018
9. Behavioral asset pricing  
   April 29, 2018

## III - Low interest rates macroeconomics

10. The New Keynesian Model and the Liquidity Trap  
    May 3, 2018
11. Measuring the marginal product of capital  
    May 8, 2018
12. OLG models, public debt, rational bubbles  
    May 10, 2018
13. Low interest rates: demand or supply  
    May 13, 2018
14. External balance and competitiveness  
    May 15, 2018
15. External balance and competitiveness  
    May 17, 2018

## IV - Heterogeneity and macro

15. Size / wage distributions: evidence  
    May 22, 2018
16. Size / wage distributions: dynamic theories  
    May 24, 2018
17. Size / wage distributions: assignment models  
    May 29, 2018
18. Static optimal taxation  
    May 31, 2018

| Presentations | June 5/7, 2018 |
| Replication 2 due | June 8, 2018 |