Topics in advanced Macroeconomics
May 18-21, 2009

We start reviewing briefly the complete markets set-up and then, by introducing market incompleteness, we study some of the most commonly known macroeconomic models with Heterogeneous Agents. We will study models in which agents are unable to perfectly insure against idiosyncratic risks. Most of the analysis will be based on models in which market incompleteness is taken as given and agents can insure only by accumulating fixed return assets. If time permits, we will also consider a brief introduction of theoretical frameworks in which market incompleteness derives endogenously due to limited enforceability or asymmetric information. The plan is to cover in dept only a few basic papers that are useful from a methodological point of view. Once we understand these papers, we will be able to understand a large range of more complex contributions that can be analyzed with the same methodological tools.

I – Competitive equilibrium with complete markets

The complete market model is the basic framework we will depart from during the course. Before doing this, however, it is important to review the basic concepts.

Ljungqvist, L. and Sargent, T.J. (2004), "Recursive Macroeconomic Theory", Chapters 7 and 8.

II – Incomplete markets: Uninsurable endowment risks

Ljungqvist, L. and Sargent, T.J. (2004), "Recursive Macroeconomic Theory", Chapter 16 and 17.

Imrohorouglu, A. (1989). Cost of Business Cycles With Indivisibilities and Liquidity Constraints. *Journal of Political Economy*, 97 (6), 1364-83.

Ayiagari, R. (1994). Uninsured Idiosyncratic Risk and Aggregate Savings. *Quarterly Journal of Economics*, 59(3), 659-84.

Krusell, P. and Smith. A. (1998). Income and Wealth Heterogeneity in Macroeconomic. *Journal of Political Economy*, 106(5), 867-96.

III – Incomplete markets: Endowment risks and limited enforceability

Ljungqvist, L. and Sargent, T.J. (2004), "Recursive Macroeconomic Theory", Chapter 18 and 19.