

5.00 credits

15.0 h

Q1

Language :	English
Place of the course	Louvain-la-Neuve
Learning outcomes	
Evaluation methods	For the evaluation students will prepare and present in class an extended "discussion" of a relevant paper to be chosen in agreement with the teacher of the course. The final grade is awarded based on the presentation. What does "discussion" mean exactly? Academic conferences often feature a discussant, who speaks after the presenter of a paper. They generally summarise the paper and provide in depth comments on the paper being presented, highlighting the key contributions as well as the drawbacks and issues with the paper.
Teaching methods	This is an advanced class based mostly on the papers listed below. Students are expected to engage actively in the class, read the material ahead and participate in discussions. The expectation is that the class will be taught in person, subject to the evolving situation with Covid-19.
Content	Given the intertemporal nature of most economic decisions, the role of expectations is central to macroeconomics. Until recently modern macroeconomic analysis typically relied heavily upon the full-information rational expectations paradigm, which assumes that economic agents are fully informed about their environment, and that they act on expectations that are rational given the available information. With the increased availability of well-designed survey data, a growing body of empirical work has questioned both these hypotheses, and a number of alternative models for expectations formation and equilibrium have been put forward. The aim of this course is to discuss with the students some of the recent evidence on deviations from the full expectations rational expectations hypothesis. We will then talk about some of the recently proposed alternative models for expectations formation and equilibrium, focusing on work that relaxes rational expectations (rather than relaxing full information). For example, we will look at : • Models that introduce cognitive discounting of the future (e.g. McKay, Nakamura and Steinsson, 2017 and Gabaix, 2019). • Diagnostic expectations, which overweigh more "representative" information (Bordalo, Gennaioli, and Shleifer, 2018, Bianchi, Ilut and Saijo, 2021). • Models in which economic agents maintain as possible many models, but are unable to assign exact probabilities to any of these models (e.g. Ilut and Schneider, 2014). • Models that relax the idea of common knowledge, introducing k-level thinking, (García-Schmidt and Woodford, 2019; Farhi and Werning, 2019)
Inline resources	Slides and other relevant materials are available on Moodle.

Bibliography	This class is based on the following papers, and other relevant ones that might appear between now and then. • Angeletos, George-Marios, and Zhen Huo. 2021. "Myopia and Anchoring." <i>American Economic Review</i> , 111 (4): 1166-1200. • Bianchi, F., C. Ilut and H. Saijo (2021), Diagnostic Business Cycles, mimeo https://drive.google.com/file/d/1Wr_apT8fyJqtQvTzUGzJGxkyfIUdsDuK/view • Bordo, P., N. Gennaioli, Y. Ma and A. Shleifer, « Overreaction in Macroeconomic Expectations », <i>AMERICAN ECONOMIC REVIEW</i>, VOL. 110, NO. 9, SEPTEMBER 2020 • Bordo, P. Nicola Gennaioli, and Andrei Shleifer, "Diagnostic expectations and credit cycles," <i>The Journal of Finance</i>, 2018, 73 (1), 199–227. • Coibion, O. Y Gorodnichenko, S Kumar, M Pedemonte 2020. Inflation expectations as a policy tool? <i>Journal of International Economics</i> 124, • Coibion, O. and Y. Gorodnichenko, « Information Rigidity and the Expectations Formation Process: A Simple Framework and New Facts » 2015. <i>American Economic Review</i> 105(8), 2644-2678. • Farhi, Emmanuel, and Iván Werning. 2019. "Monetary Policy, Bounded Rationality, and Incomplete Markets." <i>American Economic Review</i>, 109 (11): 3887-3928. • Gabaix, Xavier. 2019. "Behavioral Inattention." <i>Handbook of Behavioral Economics</i>, 2: 261–344. https://scholar.harvard.edu/files/xgabaix/files/behavioral_inattention_02.pdf • Gabaix X. <i>A Behavioral New Keynesian Model</i> . <i>American Economic Review</i>. 2020;110 (8) :2271-2327. https://scholar.harvard.edu/files/xgabaix/files/behavioral_new_keynesian_model.pdf • García-Schmidt, Mariana, and Michael Woodford. 2019. "Are Low Interest Rates Deflationary? A Paradox of Perfect-Foresight Analysis." <i>American Economic Review</i>, 109 (1): 86-120. • Ilut, Cosmin L., and Martin Schneider. 2014. "Ambiguous Business Cycles." <i>American Economic Review</i> , 104 (8): 2368-99. • Masolo, R.M. and F. Monti, « Ambiguity, Monetary Policy and Trend Inflation, » <i>Journal of the European Economic Association</i>, Volume 19, Issue 2, April 2021, Pages 839–871, • McKay, A., E. Nakamura and Jón Steinsson (2017) : The Discounted Euler Equation: A Note, <i>Economica</i>, 84, 820-831, October 2017 https://eml.berkeley.edu/~enakamura/papers/discountedEuler.pdf
Faculty or entity in charge	ECON

Programmes containing this learning unit (UE)				
Program title	Acronym	Credits	Prerequisite	Learning outcomes
Master [120] in Economics: Econometrics	ETRI2M	5		