

**14.772 Development Economics: Macroeconomics
Spring 2016**

Lectures: Tuesdays and Thursdays 2:30-4:00 (E51-151)

Recitations: Thursdays 1:00-2:00 (E51-393)

Instructor: Robert Townsend, E52-538, rtownsen@mit.edu
Office hours: Immediately after class

Teaching Assistant: Ashish Shenoy, E52-570, ashenoy@mit.edu
Office hours: Mondays 1:00-2:00

Website: <http://stellar.mit.edu/S/course/14/sp16/14.772/index.html>

Contents:

The course shows how contract and general equilibrium theory can help our understanding of the functioning of financial markets, financial access and individual welfare, the occurrence of crises, and to evaluate the rationale for financial regulation. In particular, it emphasizes that identifying the *nature* of financial frictions is crucial to determining potential market failures and thinking about ex ante optimal design – we will see many instances in which markets achieve on their own constrained-optimal outcomes and get insights about ideal ways to intervene when they do not

Requirements:

The grade will be based on class participation and a combination of problem sets and a research paper/proposal.

	Lecture	14.772 Topic
29-Mar	1	INTRODUCTION
31-Mar	2	MEASUREMENT, MAPPING THE FINANCIAL SYSTEM
<i>31-Mar</i>	<i>Rec 1</i>	
4-Apr	3	THEORY AND DATA
7-Apr	4	IMPLEMENTATION WITHOUT OBSTACLES
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12-Apr	5	RISK SHARING
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<i>14-Apr</i>	<i>Rec 3</i>	
19-Apr	NO CLASS	
21-Apr	7	PRIVATE INFORMATION AND LIMITED COMMITMENT (II)
21-Apr	<i>Rec 4</i>	
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MONEY AND LIQUIDITY

STUDENT PRESENTATIONS

STUDENT PRESENTATIONS

MICHAEL KREMER (I)

MICHAEL KREMER (II)

INTRODUCTION (LECTURE 1)

- *Committee on Payments and Settlement System. 2011. "Payment, Clearing, and Settlement Systems in India," CPSS red book.
- *Klapper, Leo. 2005. "The role of factoring for financing small and medium enterprises," World Bank working paper.
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TOPIC 1 – MEASUREMENT, MAPPING THE FINANCIAL SYSTEM (LEC. 2)

- *Pawasutipaisit, A. and Townsend, R.M., 2011. Wealth accumulation and factors accounting for success. *Journal of econometrics*, 161(1), pp.56-81.
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- <http://www.cfsp.org/research/workshops/flow-funds-accounts-and-savings-workshop>
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TOPIC 2 - THEORY AND DATA (LECTURE 3)

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Bubbles: theory

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TOPIC 3 - IMPLEMENTATION WITHOUT OBSTACLES (LECTURE 4)

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- *Townsend, R.M., 1983. Theories of intermediated structures. *Carnegie-Rochester Conference Series on Public Policy*, 18, pp.221–272.
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TOPIC 4 – RISK SHARING (LECTURE 5)

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- *Chiappori, Pierre-Andre, Krislert Samphantharak, Sam Schulhofer-Wohl and Robert M. Townsend (2013) “Heterogeneity and Risk-Sharing in Village Economies”, *Quantitative Economics*, Volume 5, Issue 1, pages 1–27, March 2014.
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Macro and labor supply

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Incomplete markets, banks, and default

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TOPIC 5 - PRIVATE INFORMATION AND LIMITED COMMITMENT (LECS. 6 & 7)

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- *Karavivanov, A. and Townsend, R.M., 2014. Dynamic financial constraints: Distinguishing mechanism design from exogenously incomplete regimes. *Econometrica*, 82(3), pp.887-959.
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Banks Runs

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