411-3 Macro: Frictions
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This part of the course covers the role of frictions in macroeconomics. We look at a variety of frictions arising from incomplete markets, from search in labor markets, from limited commitment and other agency frictions in financial markets, and from imperfect attention and information processing. The emphasis is on the role of frictions in capturing more realistically the dynamic adjustment of prices and quantities.

1 Consumption

1.1 The basic model with heterogeneous agents and incomplete markets


1.2 Applications: deleveraging, fiscal policy


2 The labor market

2.1 The basic search model


- Shimer R. *Labor Markets and Business Cycles*, Ch. 2-3


2.2 Applications: unemployment in recessions


3 Financial markets and banks

3.1 Interpretations of the financial crisis


- Markus Brunnermeier, “Deciphering the Liquidity and Credit Crunch 2007-2008” *JEP* 2009

- Arvind Krishnamurthy, “How Debt Markets Have Malfunctioned in the Crisis.” *JEP* 2010

3.2 Balance sheets and leverage


3.3 Panics


4 The goods market

4.1 Markups

4.2 Complementarities


4.3 Menu costs


4.4 Information frictions
