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Master's seminar: Topics in Macroeconomics

## **Macroeconomic models of asset pricing**

Winter 2023/2024

- Content:

This seminar surveys quantitative models of asset pricing from a macroeconomic perspective. Participants will have the opportunity to present and discuss classical and recent papers representing the research frontier in this field.

- Grading:

- To obtain 6 ECTS, participants
  1. deliver a presentation on their topic
  2. write a report on each of the topics presented in class (except their own)
  3. actively participate in in-class discussions.
- The final grade is a weighted average of 1 (45 %), 2 (45%), and 3 (10%).
- Both parts 1 and 2 must be completed with a grade of 4.0 or better.

- Areas of specialization for M.Sc. Economics:

- Economics and Politics
- Finance
- Information Systems and Network Economics

- Areas of specialization for M.Sc. VWL:

- Accounting, Finance and Taxation
- International and Development Economics
- Public Sector Economics and International Taxation

- Organization:

- All presentations take place in-person. Remote participation is not possible.
- The seminar kicks off on **October 11<sup>th</sup>** at 10:15 am. Participation in the kick-off is mandatory.
- Presentations take place on Wednesdays from 10:15 to 13:00 starting **November 8** and ending on **December 6**. Details will be announced in the kick-off meeting.
- The kick-off and all seminar talks take place in the Schluchseewerk, Rempartstrasse 16, Room 01 012 (1st level).
- For further questions, please reach out to [philipp.emanuel.moog@vwl.uni-freiburg.de](mailto:philipp.emanuel.moog@vwl.uni-freiburg.de).

- Prerequisites:
  - Successful participation in Advanced Macroeconomics I or II is required.
  - We also expect a strong interest in methods and mathematical models of asset pricing.
- Participation and seminar topics:
  - To sign up for the seminar, please send an email to [philipp.emanuel.moog@vwl.uni-freiburg.de](mailto:philipp.emanuel.moog@vwl.uni-freiburg.de) no later than **October 4<sup>th</sup>**
  - In your mail, please include a **transcript of records** and provide a ranked list of your three favorite seminar topics. This ranking should be of the form, e.g., 2B > 3C > 1A.
  - We will assign the seminar topics and announce the allocation during the kick-off.
  - While we will do our best to assign topics based on your preferences, we cannot guarantee that everybody will get their favorite topic.
- Guidelines for reports:
  - The reports summarize and discuss one of the two papers in each block.
  - They should take the form of a self-contained research paper including, aside the main text:
    1. Titlepage (topic, personal information of author, seminar title, date);
    2. List of references;
    3. Mathematical appendix, if necessary.
  - The main text comprises:
    1. A summary part (2 pages), consisting of a brief description of the article's research question, a concise description of the model, and the main results.
    2. A discussion part (1 page), reviewing the article critically by means of critique and comparison to the literature.
  - Proofs or lengthy formal derivations may be collected in a mathematical appendix.
  - The report must comply with the following formatting guidelines:
    - Din A4 paper, 12pts lettering in either Arial or Times New Roman, 1.5 line spacing.
    - Margins: 2cm
    - Citation should be done in the American Psychological Association style.
  - Reports must be submitted on Tuesday one week after the presentation/discussion of the respective topic.
- Guidelines for the presentation:
  - The presentations should take the form of a self-contained talk including
    - An introduction (research question, contribution)
    - A reproduction of the assigned research article
    - A summary of the main results and limitations.
  - Slides must be submitted one day before the presentation.
- Further details will be announced during the kick-off meeting.

- Seminar topics:

1. **Basic macroeconomic models of asset pricing and the equity premium puzzle**

1A: Robert E Lucas (1978). "Asset prices in an exchange economy". In: *Econometrica*, pp. 1429–1445

1B: Rajnish Mehra and Edward C Prescott (1985). "The equity premium: A puzzle". In: *Journal of Monetary Economics* 15.2, pp. 145–161

2. **Rare disasters and aggregate shocks**

2A: Thomas A Rietz (1988). "The equity risk premium a solution". In: *Journal of Monetary Economics* 22.1, pp. 117–131.

Rajnish Mehra and Edward C Prescott (1988). "The equity risk premium: A solution?" In: *Journal of Monetary Economics* 22.1, pp. 133–136

2B: N Gregory Mankiw (1986). "The equity premium and the concentration of aggregate shocks". In: *Journal of Financial Economics* 17.1, pp. 211–219

3. **Non-expected utility**

3A: Philippe Weil (1990). "Nonexpected utility in macroeconomics". In: *The Quarterly Journal of Economics* 105.1, pp. 29–42

3B: Philippe Weil (1989). "The equity premium puzzle and the risk-free rate puzzle". In: *Journal of Monetary Economics* 24.3, pp. 401–421

4. **Financial frictions and habit-formation**

4A: Deborah J Lucas (1994). "Asset pricing with undiversifiable income risk and short sales constraints: Deepening the equity premium puzzle". In: *Journal of Monetary Economics* 34.3, pp. 325–341

4B: Martin Lettau and Harald Uhlig (2000). "Can habit formation be reconciled with business cycle facts?" In: *Review of Economic Dynamics* 3.1, pp. 79–99

5. **Capital adjustment costs and long-run risks**

5A: Urban J Jermann (1998). "Asset pricing in production economies". In: *Journal of Monetary Economics* 41.2, pp. 257–275

5B: Ravi Bansal and Amir Yaron (2004). "Risks for the long run: A potential resolution of asset pricing puzzles". In: *The Journal of Finance* 59.4, pp. 1481–1509

- Prerequisite readings for all participants:

1. Robert E Lucas (1978). "Asset prices in an exchange economy". In: *Econometrica*, pp. 1429–1445

2. John H Cochrane (2017). "Macro-finance". In: *Review of Finance* 21.3, pp. 945–985