



LECON2705 – Expectations in Macroeconomics: Theory and Evidence

Syllabus – May-June 2022

Course Description	<p>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.</p> <p>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, including :</p> <ul style="list-style-type: none">• Coibion, O. and Y. Gorodnichenko, « Information Rigidity and the Expectations Formation Process: A Simple Framework and New Facts » 2015. American Economic Review 105(8), 2644-2678.• Bordo, P., N. Gennaioli, Y. Ma and A. Shleifer, « Overreaction in Macroeconomic Expectations », AMERICAN ECONOMIC REVIEW, VOL. 110, NO. 9, SEPTEMBER 2020• Bianchi, F., S. Ludvigson and S. Ma (2021), Belief Distortions and Macroeconomic Fluctuations <p>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 :</p> <ul style="list-style-type: none">• 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).• Imperfect macroeconomic expectations: evidence and theory (Angeletos, Huo and Sastry, 2021)
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Timing and location	Wednesday from 9.30 to 12.30 on the following days: 4/5, 11/5, 25/5, 8/6, 15/6
Professor	Francesca Monti francesca.monti@uclouvain.be Center for Operations Research and Econometrics (CORE) Voie du Roman Pays, 34 - L1.03.01 1348 Louvain-la-Neuve
Office Hours	
Grades and evaluation	Participation to class discussions (20%). Present and "discuss a paper" of the reading list (80%).
Reading list	<p>This class is based on the following papers, and other relevant ones that might appear between now and then.</p> <ul style="list-style-type: none"> • Angeletos, Huo and Sastry, 2021. Imperfect macroeconomic expectations: evidence and theory • Angeletos, George-Marios, and Zhen Huo. 2021. "Myopia and Anchoring." <i>American Economic Review</i>, 111 (4): 1166-1200. • Bianchi, F., S. Ludvigson and S.Ma (2021), Belief Distortions and Macroeconomic Fluctuations • 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 », AMERICAN ECONOMIC REVIEW, VOL. 110, NO. 9, SEPTEMBER 2020 Bordalo, 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



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| | <ul style="list-style-type: none">• Gabaix X. <i>A Behavioral New Keynesian Model</i>. American Economic Review. 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." American Economic Review, 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, » Journal of the European Economic Association, 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• |
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NOTE : if you plan to follow this course, please follow the next steps :

1. Ask the authorization of your thesis director to add this course in your doctoral program
2. Send an e-mail to geraldine.carette@uclouvain.be and solange.dujardin@uclouvain.be to confirm your registration with your Name, the Code of your Program (ECGE3FD or other) and the Code of the Course
3. Put your thesis director and the professor in CC of this e-mail
4. Specify also if you plan to pass the exam or not