

IWH-DPE/CGDE

**Paul De Grauwe, PhD** (London School of Economics and Political Science, UK)

**10 to 14 September 2018**

## Lectures in Behavioral Macroeconomics

### Course Description

Modern macroeconomics has been dominated by the paradigm of the utility maximizing representative agent with rational expectations (DSGE-models). In these lectures an alternative paradigm is provided based on the notion that agents have cognitive limitations preventing them from having rational expectations. A behavioral macroeconomic model is developed and the implications of that model for monetary and fiscal policies are derived. These results are contrasted with those obtained in standard DSGE-models.

### Format of sessions

#### Monday 10 September 2018

10:00-13:00; 14:00-15:30 (student presentations)

#### Tuesday 11 September 2018

10:00-13:00; 14:00-15:30 (student presentations)

#### Wednesday 12 September 2018

10:00-13:00; 14:00-15:30 (student presentations)

#### Thursday 13 September 2018

10:00-13:00; 14:00-15:30 (student presentations)

#### Friday 14 September 2018

10:00-13:00; 14:00-15:30 (student presentations)

### Exam

Students are expected to give a presentation on an assigned topic and later hand in a short paper (at most 10 pages).

### Venue

Otto von Guericke University Magdeburg, Faculty of Economics and Management, Universitätsplatz 2, 39106 Magdeburg, Building 22, room A-225 (Fakultätszentrum)

### Registration

Please contact Sabine Wolf, E-mail: [sabine.wolf@ovgu.de](mailto:sabine.wolf@ovgu.de), until August 15, 2018.

The course is limited to 25 participants.

## Detailed Program

- The need for a new approach in macroeconomic modeling
- How to build a behavioral macroeconomic model
- Main features of the behavioral model
- The role of animal spirits in the business cycle
- Contrast with DSGE-model
- Optimal monetary policies in the behavioral macroeconomic model
- The business cycle theories underlying the DSGE-model and the behavioral model
- Inflation targeting and the Zero Lower Bound in a behavioral macroeconomic model
- Structural reforms and stabilization in a behavioral model
- Fiscal policies in a behavioral model
- International synchronization of the business cycles and animal spirits
- A behavioral model of the foreign exchange market.
- Bubbles and crashes in the foreign exchange markets

## Reading List

- Akerlof, G., and Shiller, R., (2009), *Animal Spirits. How Human Psychology Drives the Economy and Why It Matters for Global Capitalism*, Princeton University Press, 230pp.
- Ascari, G., Fagiolo, G., and Roventini, A. (2015). Fat-Tail Distributions And Business-Cycle Models. *Macroeconomic Dynamics* , 19(02):465-476.
- Brock, W., and Hommes, C., (1997), A Rational Route to Randomness, *Econometrica*, 65, 1059-1095
- Delli Gatti, D., Di Guilmi, C., Gaffeo, E., Giuloni, G., Gallegati, M., Palestrini, A., (2005), A new approach to business fluctuations: heterogenous interacting agents, scaling laws and financial fragility, *Journal of Economic Behavior and Organization*, vol. 56, 489-512
- De Grauwe, P., *Lectures on Behavioral Macroeconomics*, Princeton University Press, Princeton, New Jersey, 136pp., 2012
- De Grauwe, P., and Ji, Y., *Inflation Targets and the Zero Lower Bound in a Behavioral Macroeconomic Model*, forthcoming in *Economica*, 2017
- De Grauwe, P., and Ji, Y., "The international synchronisation of business cycles: the role of animal spirits." (with Yuemei Ji), *Open Economies Review* (2017): 1-30
- De Grauwe, P. and Grimaldi, M., *The Exchange Rate in Behavioral Finance Framework*, Princeton University Press, 2006
- Gabaix, X., (2014), A Sparsity-Based Model of Bounded Rationality, *The Quarterly Journal of Economics* (2014), 1661–1710.
- Galí, J., (2008), *Monetary Policy, Inflation and the Business Cycle*, Princeton University Press, 203pp.
- Hommes, C., and Lustenhouwer, J., (2016), *Managing Heterogeneous and Unanchored Expectations: A Monetary Policy Analysis*, Working Paper, Tinbergen Institute, Rotterdam.
- Hommes, C., (2016), *Behavioral Macroeconomics with Heterogeneous Expectations and Interacting Agents*, Discussion Paper, CenDEF, University of Amsterdam.
- Kahneman, D., 2002, *Maps of Bounded Rationality: A Perspective on Intuitive Judgment and Choice*, Nobel Prize Lecture, December 8, Stockholm (also published in *American Economic Review*, 2003).
- Kirman. A., (1992), Whom or What Does the Representative Individual Represent?, *Journal of Economic Perspectives* · vol. 6, no. 2, Spring, pp . 117-136.