

# Contracts and Macro

New York University- Spring, 2017

**Instructor:** Rishabh Kirpalani

**Time:** Wednesdays, 6-8 pm

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## Overview

In this course, we will study tools from mechanism design and contract theory with applications to Macroeconomics and Public Finance. Some of the applications we will cover include optimal taxation and social insurance, public goods provision, bank runs and financial crises. I will occasionally assign some homework problems to work on. In addition, I might ask some of you to present papers that I won't have time to cover.

## Course Outline

Two references that will be useful throughout the course are [Stokey et al. \(1989\)](#) and [Ljungqvist and Sargent \(2012\)](#).

## Theory

1. **Mechanism Design (Static):** [Myerson \(1981\)](#), [Myerson and Satterthwaite \(1983\)](#)
2. **Private Information:** [Thomas and Worrall \(1990\)](#), [Atkeson and Lucas \(1992\)](#), [Fernandes and Phelan \(2000\)](#), [Rogerson \(1985\)](#), [Phelan and Townsend \(1991\)](#)
3. **Decentralization and Efficiency:** [Prescott and Townsend \(1984a\)](#), [Prescott and Townsend \(1984b\)](#), [Rothschild and Stiglitz \(1976\)](#), [Bisin and Gottardi \(2006\)](#)

4. **Limited Commitment:** Kehoe and Levine (1993), Bester and Strausz (2001), Golosov and Iovino (2014)
5. **Hidden Trading:** Allen (1985), Golosov and Tsyvinski (2007), Cole and Kocherlakota (2001), Kirpalani (2016)

## Applications

1. **Optimal Taxation:** Mirrlees (1971), Saez (2001), Golosov et al. (2003) Golosov et al. (2016), Farhi and Werning (2013)
2. **Public Goods Provision:** Rob (1989), Mailath and Postlewaite (1990), Chari and Jones (2000)
3. **Endogenous Financial Frictions:** Alvarez and Jermann (2000), DeMarzo and Sannikov (2006), Hellwig and Lorenzoni (2009), Clementi and Hopenhayn (2006)
4. **Bank Runs:** Diamond and Dybvig (1983), Jacklin (1987), Farhi et al. (2009)
5. **Equilibrium Default/Separation:** Dovis (2014), Hopenhayn and Werning (2008), Kirpalani (2016)
6. **Financial Crises and Regulation:** Chari and Kehoe (2015), Farhi and Tirole (2012)
7. **Multiplicity and Coordination Problems:** Cole and Kehoe (2000), Gu et al. (2013), Atkeson et al. (2010), Bassetto (2002)
8. **Delegation Problems:** Amador et al. (2006), Athey et al. (2005), Amador and Bagwell (2013), Halac and Yared (2014)

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