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Topics in Behavioral Macroeconomics  
ECON 702 Syllabus  
Fall 20022  

Course Information  
Lectures: Tu, Th  2 - 3:15 pm,  3100 Tydings Hall  
Office hours: By appointment, in person or on Zoom  
UMD’s policies on graduate courses and graduate student rights and responsibilities can be found here: Course Related Policies | The University of Maryland Graduate School  

Description  
ECON 702 is part II of the Economics Department’s two-semester sequence in Advanced Macroeconomics, intended for second-year Ph.D. students. This course will focus on recent developments in the fast-growing subfield of behavioral macroeconomics, with applications to business cycles and monetary economics. We will discuss surveys and controlled laboratory experiments that test the full information rational expectations (FIRE) hypothesis, and characterize deviations from FIRE in individual beliefs and actions, and we will study models that relax both the FI and the RE assumptions in general equilibrium settings, to bridge the gap between individual biases and constraints on the one hand and aggregate consequences and policy implications on the other.

Prerequisites  
ECON 601 and ECON 602. Students who have not taken these courses and students from other departments or years should talk to me to enroll in or audit this course.

Topics  

0. Preamble: Rational expectations foundations
1. Testing REE: Surveys and RCTs
2. Fixed information frictions: sticky and dispersed information
3. Endogenizing information frictions: rational inattention in macro and finance
4. Controlled lab experiments: belief updating, probability distortions, stochastic choice
5. Cognitive constraints and risk preferences
6. Inter-temporal considerations: Finite horizons, myopia, and present bias
7. Habits as optimal adaptations
8. Adaptive expectations and learning models of bounded rationality
9. Diagnostic expectations, the representativeness heuristic, and over-extrapolation
10. Cognitive limitations and strategic considerations
11. Model uncertainty, ambiguity aversion, and robust control
12. Aggregation: Aggregate uncertainty, news and sentiments in business cycles

Grading (see ELMS for details)

50% = Research project on any of the main topics
30% = Referee report & recorded discussion on a paper from any of the main topics
15% = Written comments on 8 papers from any of the main topics
5% = In-class discussions on the topics posted on ELMS

Required Advance Reading


Practical Books


Goodson, Patricia (2016), *Becoming an academic writer: 50 exercises for paced, productive, and powerful writing*, Sage Publications.

**Reading List**

Readings marked with ◇ should not be used for comments or referee reports.

**Some Background on Rational Expectations**


**Testing REE: Direct Survey Evidence**


**Testing REE: Surveys with Information Treatments**


Andre, Peter, Carlo Pizzinelli, Christopher Roth & Johannes Wohlfart (2021), “Subjective Models of the Macroeconomy: Evidence From Experts and Representative Samples,” University of Bonn and University of Cologne, Germany.


**Joint Behavior of Expectations & Choice Data**


Modeling Sticky Information


Models of Dispersed Information


**Rational Inattention I - Noisy and Discrete Choice**


**Rational Inattention II - Sluggish and Discrete Adjustment**


Rational Inattention III - Strategic Considerations


Rational Inattention IV - Macro Applications


**Rational Inattention V - Applications to Portfolio Choice**


**Some Evidence from The Lab**


Cognitive Constraints and Risk Preferences


Inter-temporal considerations: Myopia and Present Bias


Inter-temporal considerations: Finite Horizons


Habits as Optimal Adaptations


Adaptive Expectations and Learning


Diagnostic Expectations and Over-extrapolation


Level-k and Its Macro Applications


Cognitive Limitations and Strategic Considerations


**Model Uncertainty, Ambiguity Aversion, and Robust Control**


**News in Business Cycles**


Aggregate Uncertainty


Sentiments in Business Cycles


Welfare Considerations
