

M.Sc. in Economics

Code:	017 919	Type:	M.Sc.2010-2012, 6 th term
Title:	Advanced Microeconomic Theory (Rational asset pricing bubbles)		
Lecturer:	Camelia Bejan		
ECTS:	3	Contact hours (per semester):	10 x 120 min
Semester:	Summer 2012	Frequency of the lecture:	Four times a week
Dates:	May 21-June 11, 2012		

Prerequisites:	Mathematics II, Micro II, Macro II
-----------------------	------------------------------------

Learning objectives (What are the intended learning outcomes? Which skills will be acquired?):
The course analyzes the conditions under which rational asset price bubbles may arise in the competitive equilibrium of a stochastic infinite horizon economy. We will investigate both complete and incomplete markets economies in which agents are subject to exogenous wealth constraints, as well as endogenous constraints arising from the limited enforcement of contracts.

Content (Which professional competence and which contents will be imparted?):
<p>Infinite horizon stochastic economies with wealth constraints</p> <p>Pricing kernels</p> <p>Non-existence of bubbles in economies with exogenous wealth constraints</p> <p>Limited enforcement of contracts and endogenous debt constraints</p> <p>Bubble equivalence theorem</p> <p>Martingale properties of self-enforcing debt</p> <p>Efficiency and indeterminacy of equilibrium</p>

Teaching approach (Description of the learning and teaching methods):
Lecture

Workload (Definition of workload (ECTS), divided in pre-modules (e.g. pre-readings), core-modules (contact hours), post-modules (e.g. case studies)):

M.Sc. in Economics

Language of instruction (Information on the language of teaching):

English

Obligatory literature (E.g. scripts, books, articles, cases, papers):
--

Lecture notes (handed out in class)

Additional literature (E.g. books, articles, cases, papers):

Abraham, A., E. and Carceles-Poveda (2010): "Endogenous trading constraints with incomplete asset markets," *Journal of Economic Theory*, 145(3).

Alvarez, F., and U. J. Jermann (2000): "Efficiency, Equilibrium, and Asset Pricing with Risk of Default," *Econometrica*, 68(4).

Bejan, C., and F. Bidian (2010): "Payout policy and bubbles," working paper.

Bejan, C., and F. Bidian (2010): "Martingale Properties of Self-Enforcing Debt," working paper.

Bidian, F. (2010): "Bubbles and Asymmetric Information," mimeo, University of Minnesota.

Bloise, G., P. Reichlin, and M. Tirelli (2009): "Indeterminacy of Competitive Equilibrium with Risk of Default," CEPR Discussion Papers 7477, C.E.P.R. Discussion Papers.

Bulow, J., and K. Rogoff (1989): "Sovereign Debt: Is to Forgive to Forget?" *American Economic Review*, 79(1).

Cochrane, J. H. (2002): "Stocks as Money: Convenience Yield and the Tech-Stock Bubble," NBER Working Papers 8987, National Bureau of Economic Research, Inc.

DeMarzo, P. M. (1988): "An extension of the Modigliani-Miller Theorem to stochastic economies with incomplete markets and interdependent securities," *Journal of Economic Theory*, 45.

Duffie, D. (1988): *Security markets: Stochastic models*. Harcourt Brace Jovanovich, Academic Press, San Diego; London; Sydney and Toronto.

Hart, O. D. (1975): "On the Optimality of Equilibrium when the Market Structure is Incomplete," *Journal of Economic Theory*, 11(3).

Hellwig, C., and G. Lorenzoni (2009): "Bubbles and Self-Enforcing Debt," *Econometrica*, 77(4).

Hernandez, A. D., and M. S. Santos (1996): "Competitive Equilibria for Infinite-Horizon Economies with Incomplete Markets," *Journal of Economic Theory*, 71(1).

Huang, K. X. D., and J. Werner (2000): "Asset Price Bubbles in Arrow-Debreu and Sequential Equilibrium," *Economic Theory*, 15(2).

Kehoe, T. J., and D. K. Levine (1993): "Debt-Constrained Asset Markets," *Review of Economic Studies*, 60(4).

M.Sc. in Economics

Kocherlakota, N. R. (1992): "Bubbles and Constraints on Debt Accumulation," *Journal of Economic Theory*, 57(1).

Kocherlakota, N. R. (2008): "Injecting Rational Bubbles," *Journal of Economic Theory*, 142(1).

Leroy, S., and J. Werner (2001): "Principles of Financial economics. Cambridge University Press, 1stedn.

Montrucchio, L., and F. Privileggi (2001): "On Fragility of Bubbles in Equilibrium Asset Pricing Models of Lucas-Type," *Journal of Economic Theory*, 101(1).

Santos, M. S., and M. Woodford (1997): "Rational Asset Pricing Bubbles," *Econometrica*, 65(1).

Mode of examination (Mode of the examinations and tests (e.g. oral or written examination, lecture, homework, papers, class participation):

Final exam

Grading:

Final exam 100%

Special features (E.g. excursion, guest speaker):

Contact information:

Camelia Bejan
 Rice University, Depart. of Economics, MS-22
 6100 Main Street
 Houston, TX 77005
 USA

E-mail: camelia@rice.edu

Phone: 1-713-348-3532

Fax:

Office hours:

By appointment

Course website: TBA

M.Sc. in Economics