Household Finance and Macroeconomics

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1 Course Information

Instructor: Dr. Kwok Yan Chiu, kwok.yan.chiu@uni-mannheim.de
(!!Please add E5124 in the subject line!!)
Lecture Time: Wednesday 10:15 - 11:45
Lecture Room: 003 Seminarraum (L9, 1-2)
Office Hours: Email to set up an appointment

2 Course Description

The Great Recession was associated with a large increase in household debt. This has drawn attention to the role of household finances in macroeconomics by both academic researchers and policymakers (e.g. Federal Reserve[1]). This course examines the theoretical and empirical literature on household finance and macroeconomics. The goal is to understand how household finances shape the macroeconomic fluctuation. Topics include consumption-savings decisions, housing markets and deleveraging, portfolio choice, and inequality.

We will start with some motivating facts about households' responses during the financial crisis. We will then study a canonical household finance model and examine its macroeconomic implications. We then extend this model to cover more advanced topics later. There is no textbook for this course. Materials will be drawn from literature, ranging from theoretical, computational and empirical papers.

3 Structure

Tentative: 14 lectures. 3 of them are exercise/practice classes where we work on practical empirical or computational problems.

4 Grading

1. 70%: a 120-minute final exam, with no aids.

[1] https://www.federalreserve.gov/newsevents/speech/jefferson20250219a.htm

2. 30%: one 3-5 pages report from every exercise class. Each report contributes 10% of the grade.

5 Programming

Prior knowledge of programming is not required. However, students are expected to complete assignments using a programming language for data analysis e.g. Python, R, Stata and a programming language for computational tasks e.g. Python, Julia or MATLAB.[2] Codes in the lecture note will be posted and students are expected to build on these codes to complete the exercises.

6 Tentative Plan

- Lecture 1: Introduction
- Lecture 2: Foundation: Consumption-Saving Problem
- Lecture 3: Foundation: Portfolio Choice Problem
- Lecture 4: **Exercise** Computational Methods
- Lecture 5: Marginal Propensity to Consume (1)
- Lecture 6: Marginal Propensity to Consume (2)
- Lecture 7: Deleveraging and Housing wealth Shock (1)
- Lecture 8: Deleveraging and Housing wealth Shock (2)
- Lecture 9: **Exercise** Document high MPC households in data
- Lecture 10: Wealth Inequality and Portfolio Choice (1)
- Lecture 11: Wealth Inequality and Portfolio Choice (2)
- Lecture 12: **Exercise** Households portfolio data and computation
- Lecture 13: Additional Topics[3] (1)
- Lecture 14: Additional Topics (2)

[2] I recommend using R/Python for data analysis and Julia/Python for computational tasks. If you do not have experience with these languages, I would encourage you to use the opportunity to switch

[3] Additional topics may range from incomplete information, non-homothetic preference, or cyclicality of income risk