Euro Area Business Cycle Network Training School

Learning and Expectations Formation

Fachhochschule der Deutsche Bundesbank
Hachenburg

19-23 October 2009

Deadline 15 July 2009

General Description

We are pleased to announce details of the 10th EABCN Training School, a five-day course entitled “Learning and Expectations Formation”.

Professor Klaus Adams and **Professor Albert Marcet** will teach the course. It is primarily aimed at participants in the Euro Area Business Cycle Network, but applications will also be considered from doctoral students, post-doctoral researchers and economists working in central banks and government institutions outside of the network as well as commercial organisations (fees applicable for non-network organisations).

Course Detail

Learning is a new way of thinking about macroeconomic dynamics. It was used initially to assess the plausibility of rational expectations equilibria (REE) and to select among equilibria when there are multiple REE. Lately more work focuses on empirical performance and policy implications. The modern approach to adaptive learning differs from the adaptive expectations approach of the 1950.s by using rational expectations equilibria as a reference point and by emphasizing the implications of small deviations from full forecast rationality. The macroeconomic predictions induced by adaptive learning dynamics recently allowed interpreting and replicating a variety of empirical phenomena that would otherwise appear puzzling from the viewpoint of RE models.

This course reviews the implications of relaxing the rational expectations assumption in dynamic models. We focus on applications to macroeconomics and asset pricing. We study the implications of replacing the rational expectations hypothesis by the view that agents are learning and constantly trying to improve their forecasts. The course reviews the basic theoretical results of the learning literature, applications of learning models to explain empirical phenomena and to inform the design of fiscal and monetary policy.

The tentative outline of the course is:

Part I: Introduction, fundamentals tools & convergence to RE

1. Why models of learning and which ones?
2. The mathematical toolkit.
3. Convergence to RE.

Part II: Learning and Monetary Policy Design

1. Price level determination in Basic Sticky Price Models under Rational Expectations.

2. Designing monetary policy rules when agents are learning.

Part III: Models of Learning and the Cyclical Response to Shocks

1. Learning and the propagations of nominal shocks in basic sticky price models.
2. Learning in more elaborate dynamic general equilibrium (DGE) models.

Part IV: Observed Monetary Policy and Learning

1. Explaining post-war US monetary Policy and hyperinflationary experiences with models of learning.

Part V: Models of Learning to Understand Asset Prices

1. Models of learning to understand asset prices.
2. Decision theoretic foundations of learning models and fragility of present value formulations.

Administrative Information

The course will take place Fachhochschule der Deutsche Bundesbank, University of Applied Sciencs of the German Bundesbank Schloss, in Hachenburg, Germany, and the participants will be invited to make their own arrangements regarding their accommodation and meals. Further information will be available to applicants. Candidates should fill in the enclosed form and return it to CEPR's Meetings Manager, Nadine Clarke (nclarke@cepr@org) by **July 15st, 2009**. **We ask that you send a current version of your CV with your application.** EABCN gratefully acknowledges the generous provision of facilities by Deutsche Bundesbank for this course.

About the Instructors

Professor Klaus Adams holds a PhD from European University Institute. He was Principal Economist at ECB and Adjunct Professor at Goethe University of Frankfurt and since 2008 Professor at Mannheim University. He is Research Fellow of CEPR, Associate Editor of Journal of Monetary Economics and Economic Journal and of other leading economics journals.

Professor **Albert Marcet** holds a PhD from University of Minnesota. He was Associate Professor at Carnegie Mellon University and Adjunct Professor at University of Pompeu Fabra and since 2006 Adjunct Professor at Universitat Autonoma de Barcelona. He is a Research Fellow of CEPR and Associate Editor of Economic Journal.