Euro Area Business Cycle Network Training School

Financial Frictions and Macroeconomic Activity

By

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European University Institute
Florence

15 – 17 September 2014
Deadline: 15 July 2014

General Description

We are pleased to announce details of the latest EABCN Training School; a three-day course entitled “Financial Frictions and Macroeconomic Activity”. Professor Simon Gilchrist 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 and Syllabus

The substantial damage---in terms of lost output, lost jobs, and lost wealth---from the spillover of stress from the global financial system to the global economy more broadly, highlights the importance of well-functioning credit markets for macroeconomic performance. In these lectures, Professor Gilchrist will provide an overview of the recent empirical evidence documenting linkages between financial conditions---as measured by yield spreads on corporate debt instruments and other financial indicators---and real economic activity, and also discusses theoretical frameworks in which financial disturbances affect the real economy via the financial accelerator mechanism emphasized in Bernanke, Gertler and Gilchrist (1999). These lectures also discuss the recent research whose aim is to identify financial-real linkages by estimating a New Keynesian Dynamic Stochastic General Equilibrium model augmented with the financial accelerator, and the likely benefits of allowing the monetary authority to respond directly to measures of financial distress in such environments. Professor Gilchrist will also consider two extensions of this modelling approach. The first extension considers an economy characterised by stochastic volatility in which firms face significant financial frictions when raising external finance. This framework sheds significant light on the dynamic effects of increased uncertainty on output, investment, and financial asset prices, and highlights the importance of time-varying risk as a determinant of credit spreads in general equilibrium. The second extension considers the effect of financial factors on inflation dynamics in an environment where firms set prices to influence future market share.
The course will cover the following topics:

- **Credit Spreads and Economic Activity**
  
  
  

- **Financial Frictions in DSGE Models**
  
  
  
  

- **The implication of Financial Frictions for Investment and Inflation Dynamics**
  
  
  Gilchrist, Simon, Raphael Schoenle, Jae Sim and Egon Zakrajsek, "Inflation Dynamics During the Financial Crisis ", Boston University Mimeo, 2014.

**Administrative Information:**

The course will take place in Florence at the European University Institute and participants will be invited to make their own arrangements regarding their accommodation and meals. Further information will be available to successful applicants. Candidates should apply by sending an email with their details to CEPR's Events Manager, Nadine Clarke (nclarke@cepr.org) by July 15th, 2014. We ask that you send a current version of your CV.

**About the Instructor:**

Simon Gilchrist is Professor of Economics at Boston University. His main research interests are macroeconomics and monetary policy. He obtained his Ph.D. from the University of Wisconsin. He is co-editor of the American Economic Journal: Macroeconomics, and associate editor of the Journal of Financial Intermediation. He is a Research Associate of NBER.