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COURSE WEBPAGE
The material will be available through the following link

MEETING TIMES AND VENUE
Class meets once per week on Fridays for 3 hours in the classroom 4125.
Each class starts at 9am. On 1/15 and on 2/12 we will meet in classroom 4106.

OVERVIEW
The course is a rigorous, quantitative analysis of consumption based asset pricing models. After carefully reviewing the basics of the representative consumer framework, we will be interested in pushing the analysis in five directions:

1. How are prices determined in general equilibrium?
2. How can we approximate the solution of a dynamic asset pricing model, when an analytical solution is not available?
3. What are the leading theories of consumption based asset pricing?
4. How do these theories perform in determining the joint dynamics of international prices and quantities?
5. What happens if investors do **not fully trust** their model?

Since a special attention will be devoted to developing the tools for solving recursive dynamic problems in theory and practice, basic knowledge of Matlab or Fortran is a prerequisite for this class.

**TEXTBOOKS**  The *recommended* textbooks for this class are:

1. “Recursive Macroeconomic Theory” by Lars Ljungqvist and Thomas Sargent, 2\textsuperscript{nd} edition. We will abbreviate it as RMT below.
2. “Applied Computational Economics and Finance”, by Mario Miranda and Paul Fackler. We will refer to it as COMP below.
3. “Robustness” by Lars Peter Hansen and Thomas J. Sargent. We will refer to it as HS below.

**EXAMS CONDUCT AND POLICIES**  There will be one final exam. The exam is closed books. No laptops, nor palm pilots are allowed on the exam. Make-up quizzes will be given only for family or medical emergencies. In the interests of fairness, evidence is required. To prepare for the exam, you should review the key issues discussed in class, in the readings and in the handouts, review the problem sets you handed in, look at the suggested problem sets and suggested readings. Doing more exercises on your own is always a good idea.

**EXAM DATE**  February 26th, 9am.

**PROBLEM SETS**  For each problem set, you will be rewarded full credit if you have made a good-faith effort to answer all of the questions and if you hand in the problem set on time.

**GRADING POLICY**  The final counts toward 50\% of your final grade. Homeworks, presentations, and class participation will be reflected in the remaining 50\% of your grade.

**COURSE OUTLINE**  A class by class description of topics, readings and problems sets can be found at the class web page. Here is a sketch.

**CLASS 1 (1/15)**

- **Topic:** Consumption Based Asset Pricing with a representative consumer
- **Readings:** RMT, chapter 13
**CLASS 2 (1/22)**

- **Topic:** Consumption based asset pricing with multiple consumers: equilibrium with complete markets
- **Readings:** RMT, chapter 8

**CLASS 3 (1/29)**

- **Topic:** Practical Dynamic Programming
- **Readings:** COMP, chapters 5,6

**CLASS 4 (2/5)**

- **Topic:** The equity premium puzzle and its proposed solutions
- **Readings:**

**CLASS 5 (2/12)**

- **Topic:** The international equity premium puzzle.
- **Readings:**
  - “Risks for the long-run and the real exchange rate”, by Riccardo
Colacito and Mariano Croce, working paper, UNC Chapel Hill, 2008.

**CLASS 6 (2/19)**

- **Topic**: Robust Asset Pricing
- **Readings**:
  - HS, chapters 1,13,14.