

Lectures on Frontiers of Economics

Recursive Contracts and Dynamic Economies

November 28 to December 2, 2005 at The Australian National University.

Website: <http://ecocomm.anu.edu.au/MSG/recursive.htm>

Topic: *Optimal Government Policy: Theory and Applications of Recursive Contracts*

Speaker: Dr. Begoña Dominguez (University of Auckland)

Organizing institutions and sponsors

- Center for Applied Macroeconomic Analysis (CAMA)
- National Institute for Economics and Business (NIEB)
- ANU Macroeconomics Study Group
- Economic Theory Centre (Melbourne)
- Economic Design Network

Course structure

- Five two-hour lectures
- Four to five one-hour computer lab tutorials

About the course

The use of recursive methods has been significant in advancing economists' understanding of dynamic economies. Until the development of the theory of recursive contracts, however, many interesting dynamic problems failed to be amenable to such recursive solutions. For instance, in dynamic policy games, the Nobel-prize-winning work of Kydland and Prescott asserted that rational expectations impose a consistency-of-beliefs constraint on the policymaker such that optimal policy design as a recursive optimal control problem would break down.

The modern literature on recursive contracts has made a large class of such dynamic problems amenable to recursive methods. They have also overturned the Kydland-Prescott pessimism about sustaining optimal policy equilibria as recursive equilibria. Useful applications include sustaining optimal fiscal and monetary policy when policymakers lack commitment, optimal unemployment insurance when workers possess private information, financial market models with lending and moral hazard, optimal regulation in industrial organization, trade-liberalization agreements, and how to deal with terrorists. A detailed course outline can be obtained from the course website.

This course exposes participants to the tools, concepts and applications of the methods of recursive contracts. We envision that the lecture series will enhance the work of researchers in academic as well as policymaking and advisory environments.

The audience

The course is designed for graduate students and advanced undergraduates. Some familiarity with recursive methods is recommended, but the requisite tools will be covered at the beginning of the course. See the course website for details.

About the speaker

Begoña Dominguez holds a Ph.D from the Universitat Autònoma de Barcelona, Spain. Her research interests are in the areas of macroeconomics, public finance, growth and computational methods for dynamic economies. Her most recent publication entitled "Reputation in a Model with a Limited Debt Structure" is forthcoming in the *Review of Economic Dynamics*.

Registration

Non academic: AUD 700 for early registration
AUD 800 after August 31.

AUD 500 per person, if registering in a group with minimum of 4.

Academic rates: Special academic rates are available upon request. A limited number of fee scholarships are available for students and academics. Please inquire for travel scholarships. You must register by the August 31 deadline to qualify.

Registration Forms

Registration forms are available for download at: <http://ecocomm.anu.edu.au/MSG/recursive.htm>

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