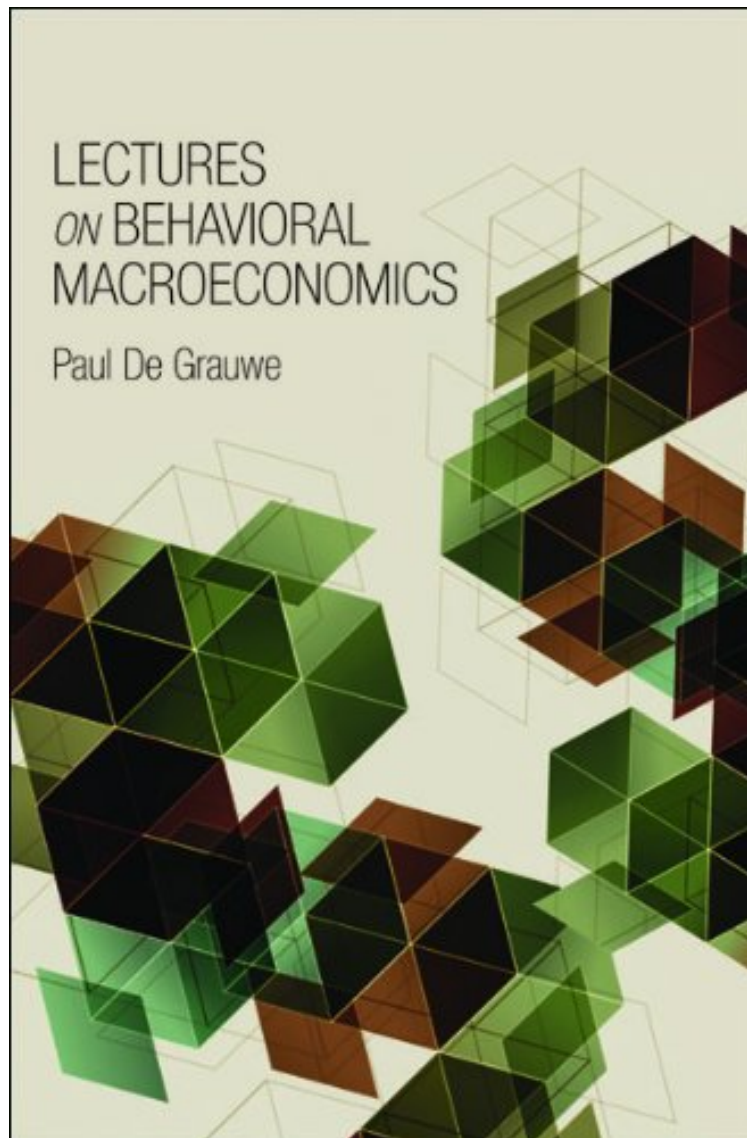


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## Lectures on Behavioral Macroeconomics

*Paul De Grauwe*

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**Paul De Grauwe : Lectures on Behavioral Macroeconomics** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Lectures on Behavioral Macroeconomics:

In mainstream economics, and particularly in New Keynesian macroeconomics, the booms and busts that characterize capitalism arise because of large external shocks. The combination of these shocks and the slow adjustments of wages and prices by rational agents leads to cyclical movements. In this book, Paul De Grauwe argues for a different

macroeconomics model--one that works with an internal explanation of the business cycle and factors in agents' limited cognitive abilities. By creating a behavioral model that is not dependent on the prevailing concept of rationality, De Grauwe is better able to explain the fluctuations of economic activity that are an endemic feature of market economies. This new approach illustrates a richer macroeconomic dynamic that provides for a better understanding of fluctuations in output and inflation. De Grauwe shows that the behavioral model is driven by self-fulfilling waves of optimism and pessimism, or animal spirits. Booms and busts in economic activity are therefore natural outcomes of a behavioral model. The author uses this to analyze central issues in monetary policies, such as output stabilization, before extending his investigation into asset markets and more sophisticated forecasting rules. He also examines how well the theoretical predictions of the behavioral model perform when confronted with empirical data. Develops a behavioral macroeconomic model that assumes agents have limited cognitive abilities Shows how booms and busts are characteristic of market economies Explores the larger role of the central bank in the behavioral model Examines the destabilizing aspects of asset markets

"A refreshing, much curiosity-inspiring book. Recommended."--Acemaxx Capital Management AG\_blog "These Lectures on Behavioral Macroeconomics remind us that De Grauwe is also an excellent macroeconomic theorist and a wonderful narrator."--Domenico Delli Gatti, Journal of Economic Literature From the Back Cover "De Grauwe voices the concerns of many macroeconomists regarding the empirical plausibility of the rational expectations assumption. He shows how a parsimonious, boundedly rational approach can improve the fit of sticky price macro models to the data in a number of important dimensions."--John Duffy, University of Pittsburgh About the Author Paul De Grauwe is professor of international economics at the London School of Economics and Political Science. He is the author or coauthor of several books, including *The Exchange Rate in a Behavioral Finance Framework* (Princeton) and *Economics of Monetary Union*.