Mini course: “Behavioral industrial organization, power laws and the micro origins of aggregate fluctuations”

June 12 and 14 2017, Stockholm

Xavier Gabaix, Harvard

We’ll discuss two themes
1. Behavioral industrial organization: when consumers don’t understand fully the products they buy (e.g., they get a credit card and misunderstand the fees they’re going to pay), how does welfare change? We’ll see when the market corrects this or doesn’t, reveal or hide the information (creating “shrouded attributes”)? More generally, how to do model consumer inattention, and what are the consequences for optimal policy?

2. Power laws, inequality, and the granular origins of aggregate fluctuations. We’ll see that power law relationships are found everywhere in the distribution of firms and cities, in the size of financial activity (returns, trading volume), income and wealth. We’ll study mechanisms that generate those power laws, especially random growth and the “economics of superstars”. These power laws generate a concentrated activity, of relevance to antitrust considerations.

There will be macroeconomic consequences. An economy with power law distributed firms becomes “granular” – i.e. microeconomic shocks at the firm level lead to non-trivial aggregate fluctuations (e.g., a shock to Nokia affects the Finish economy) to GDP or exports. This also makes possible the analysis of non-trivial effects of networks in the economy. Time permitting, we’ll study how this generates high inequality, e.g. in the CEO market and for top incomes more generally.

Xavier Gabaix is Pershing Square professor of economics and finance at Harvard’s economics department. He received his undergraduate degree in mathematics from the Ecole Normale Supérieure (Paris) and obtained his PhD in economics from Harvard University. His research focuses on finance, macroeconomics, and behavioral economics. He received the Fischer Black prize given every two years to the best financial economist under 40, the Bernacer prize given to best European economist under 40 working in macroeconomics and finance, and the Lagrange and Allais Prizes. His research has been published in the American Economic Review, Econometrica, the Quarterly Journal of Economics, the Journal of Finance, and Nature. He is a Research Associate of the National Bureau of Economic Research and of the Center for Economic Policy Research.
Syllabus

1. Behavioral Industrial Organization


Farhi, Emmanuel and Xavier Gabaix. "Optimal Taxation with Behavioral Agents."

2. Power laws, inequality, and the granular origins of aggregate fluctuations

For a very elementary overview, with lots of pictures:

For a more technical overview:

Random growth and Zipf’s law

Application: Inequality
Income and wealth distribution

Economics of superstars

Micro / granular origins of aggregate fluctuations and Networks in macro
Basic theory

Networks in macro

In finance

In international trade
Gaubert, Cecile and Oleg Itskhoki. “Granular Comparative Advantage,”