

# Current Issues in Finance and Monetary Economics

Winter Semester 2016/17

## Preliminary Syllabus

(July 2016)

### **Purpose:**

The purpose of this course is to provide students with an (advanced) introduction into topics currently discussed in the area of finance and monetary economics. One major focus will be on the various approaches to model frictions in credit markets and the assessment of their implications on the macroeconomy. Moreover, the emergence and implications of leverage cycles and consequences of frictions in financial intermediation (in the form of bank runs) will be covered. Finally, the term structure of interest rates will be discussed. Both theoretical and empirical aspects will be covered. Furthermore, implications for the conduct of monetary policy will be emphasized. A detailed course outline is given below.

### **Course requirements:**

Students are expected to present an original paper (taken from the "Additional readings" list) at the end of the course. Moreover, a term paper related to the given presentation is to be handed in at the day of the presentation. Both requirements are to be fulfilled in the context of a group work. Further details on the organization of the groups and the requirements for the presentation and the term paper will be discussed at the beginning of the first lecture. The course grade will be based on the presentation and the term paper.

### **Course prerequisites:**

To participate in the course the successful participation in the courses Advanced Macro I and Principles of Finance is highly recommended.

### **Textbooks/Survey readings:**

Brunnermeier, Markus K, Thomas M Eisenbach, and Yuliy Sannikov (2012). *Macroeconomics with financial frictions: A survey*. Tech. rep. National Bureau of Economic Research.

Freixas, Xavier and Jean-Charles Rochet (2008). *Microeconomics of Banking, Second Edition*. Cambridge [Mass]: The MIT Press.

Romer, David (2011). *Advanced macroeconomics, 4th edition*. McGraw-Hill Education.

Walsh, Carl E (2010). *Monetary Theory and Policy, Third Edition*. The MIT Press.

## Course outline:

### 1. Frictionless investment model, Tobin's $q$ , the Modigliani-Miller theorem

Major readings:

Freixas and Rochet (2008), chapter 1.7

Romer (2012), chapter 9

Additional readings:

Hayashi, Fumio (1982). "Tobin's marginal  $q$  and average  $q$ : A neoclassical interpretation". In: *Econometrica*, pp. 213–224.

Modigliani, Franco and Merton H. Miller (1958). "The cost of capital, corporation finance and the theory of investment". In: *The American Economic Review* 48.3, pp. 261–297.

### 2. Microfoundations of frictions in credit markets

Major readings:

Brunnermeier et al. (2012), section 2

Freixas and Rochet (2008), chapters 4 and 5

Walsh (2010), chapter 10.5.1 - 10.5.4

Additional readings:

Bernanke, Ben and Mark Gertler (1989). "Agency costs, net worth, and business fluctuations". In: *The American Economic Review*, pp. 14–31.

Hart, Oliver and John Moore (1994). "A theory of debt based on the inalienability of human capital". In: *Quarterly Journal of Economics* 109, pp. 841–879.

Jaffee, Dwight M and Thomas Russell (1976). "Imperfect information, uncertainty, and credit rationing". In: *The Quarterly Journal of Economics*, pp. 651–666.

Stiglitz, Joseph E and Andrew Weiss (1981). "Credit rationing in markets with imperfect information". In: *The American Economic Review* 71.3, pp. 393–410.

Townsend, Robert M (1979). "Optimal contracts and competitive markets with costly state verification". In: *Journal of Economic Theory* 21.2, pp. 265–293.

Williamson, Stephen D (1986). "Costly monitoring, financial intermediation, and equilibrium credit rationing". In: *Journal of Monetary Economics* 18.2, pp. 159–179.

— (1987). "Costly monitoring, loan contracts, and equilibrium credit rationing". In: *The Quarterly Journal of Economics* 102.1, pp. 135–145.

### 3. Macroeconomic implications of frictions in credit markets

Major readings:

Brunnermeier et al. (2012), sections 2

Freixas and Rochet (2008), chapter 6

Walsh (2010), chapter 10.5.5

Additional readings:

- Bernanke, Ben S and Alan S Blinder (1988). “Credit, money, and aggregate demand”. In: *American Economic Review, Papers and Proceedings* 78.2, pp. 435–439.
- Bernanke, Ben S and Mark Gertler (1995). “Inside the black box: the credit channel of monetary policy transmission”. In: *Journal of Economic Perspectives* 9.4, pp. 27–48.
- Bernanke, Ben S., Mark Gertler, and Simon Gilchrist (1999). “The financial accelerator in a quantitative business cycle framework”. In: *Handbook of Macroeconomics*. Ed. by J. B. Taylor and Michael Woodford. Vol. 1C. Amsterdam: North-Holland.: Elsevier, pp. 1341–1393.
- Bernanke, Ben and Mark Gertler (1989). “Agency costs, net worth, and business fluctuations”. In: *The American Economic Review*, pp. 14–31.
- Carlstrom, Charles T and Timothy S Fuerst (1997). “Agency costs, net worth, and business fluctuations: A computable general equilibrium analysis”. In: *The American Economic Review*, pp. 893–910.
- Holmström, Bengt and Jean Tirole (1997). “Financial intermediation, loanable funds, and the real sector”. In: *The Quarterly Journal of economics*, pp. 663–691.
- Jiménez, Gabriel et al. (2012). “Credit supply and monetary policy: Identifying the bank balance-sheet channel with loan applications”. In: *The American Economic Review* 102.5, pp. 2301–2326.
- Kashyap, Anil K and Jeremy C Stein (June 2000). “What do a million observations on banks say about the transmission of monetary policy?” In: *American Economic Review* 90.3, pp. 407–428.
- Kiyotaki, Nobuhiro and John Moore (1997). “Credit Cycles”. In: *Journal of Political Economy* 105, pp. 211–248.

#### 4. Endogenous leverage and leverage cycles

Major readings:

Brunnermeier et al. (2012), section 3

Adrian, Tobias and Hyun Song Shin (May 2009). “Liquidity and Leverage”. In: *Journal of Financial Intermediation* 19, pp. 418–437.

Additional readings:

- Brunnermeier, Markus K and Lasse Heje Pedersen (2009). “Market liquidity and funding liquidity”. In: *Review of Financial studies* 22.6, pp. 2201–2238.
- Geanakoplos, John (2010). “The leverage cycle”. In: *NBER Macroeconomics Annual 2009, Volume 24*. University of Chicago Press, pp. 1–65.

## 5. Financial intermediation, liquidity provision and bank runs

Major readings:

Brunnermeier et al. (2012), section 5

Freixas and Rochet (2008), chapters 2.2, 7.1 and 7.2

Additional readings:

Diamond, Douglas W. and Philip H. Dybvig (1983). “Bank runs, deposit insurance, and liquidity”. In: *The Journal of Political Economy*, pp. 401–419.

Gertler, Mark and Nobuhiro Kiyotaki (2015). “Banking, liquidity, and bank runs in an infinite horizon economy”. In: *The American Economic Review* 105.7, pp. 2011–2043.

## 6. The term structure of interest rates

Major readings:

Walsh (2010), chapter 10.3 and 10.4

Additional readings:

Ang, Andrew and Monika Piazzesi (2003). “A no-arbitrage vector autoregression of term structure dynamics with macroeconomic and latent variables”. In: *Journal of Monetary Economics* 50.4, pp. 745–787.

Campbell, John Y and Robert J Shiller (1991). “Yield spreads and interest rate movements: A bird’s eye view”. In: *The Review of Economic Studies* 58.3, pp. 495–514.

Dai, Qiang and Kenneth J Singleton (2000). “Specification analysis of affine term structure models”. In: *The Journal of Finance* 55.5, pp. 1943–1978.

Diebold, Francis X, Monika Piazzesi, and Glenn Rudebusch (2005). “Modeling bond yields in finance and macroeconomics”. In: *American Economic Review* 95.2, pp. 415–420.

Rudebusch, Glenn D and Tao Wu (2007). “Accounting for a Shift in Term Structure Behavior with No-Arbitrage and Macro-Finance Models”. In: *Journal of Money, Credit and Banking* 39.2-3, pp. 395–422.

— (2008). “A Macro-Finance Model of the Term Structure, Monetary Policy and the Economy”. In: *The Economic Journal* 118.530, pp. 906–926.

**Wintersemester 2016/2017**

**Block-Seminar: Current Issues in Finance and Monetary Economics**

**Prof. Dr. Günter Beck**

**Timetable**

<b>Monday, November 7, 2016</b>	<b>10-12</b>	<b>KG II – HS 2121</b>
	<b>14-16</b>	<b>Peterhof – Raum 4</b>
<b>Tuesday, November 8, 2016</b>	<b>8-10</b>	<b>KG II – HS 2121</b>
	<b>12-14</b>	<b>Peterhof – Raum 4</b>
<b>Monday, November 21, 2016</b>	<b>10-12</b>	<b>KG II – HS 2121</b>
	<b>14-16</b>	<b>Peterhof – Raum 4</b>
<b>Tuesday, November 22, 2016</b>	<b>8-10</b>	<b>KG II – HS 2121</b>
	<b>12-14</b>	<b>KG III – HS 1139</b>
<b>Monday, December 19, 2016</b>	<b>10-12</b>	<b>KG II – HS 2121</b>
	<b>14-16</b>	<b>KG III – HS 1134</b>
<b>Tuesday, December 20, 2016</b>	<b>8-10</b>	<b>KG II – HS 2121</b>
	<b>12-14</b>	<b>KG II – HS 2121</b>