Syllabus

Course Description

This course offers a discussion about the importance and fragility of financial markets in macroeconomics. We will start by analyzing the foundations of financial contracts, the justification for the existence of financial intermediaries and the characterization of financial relationships. Then, we will study the role of financial frictions in magnifying aggregate fluctuations and the role of bubbles and panics in fueling financial crises. Finally, we will discuss how regulation and reputation concerns shape incentives in financial markets.

Just as a commitment device (to myself), my office hours are Mondays from 1pm to 3pm. However, my door is always open in case you want to go for a coffee and chat. You are also very welcome to drop me a line so we can schedule a meeting.

Finally, I’m planning this class to be very flexible. We will be discovering new common interests along the way, so I will try to accommodate to them more than following rigorously the contents I’m proposing here. Hence, the reading list is not exhaustive and may change (most likely get longer) during the semester.

Grading

You will be graded on a term paper. You should use this requirement as an opportunity to start exploring a topic of your interest. Ideally this paper will lead to a broader and more ambitious project,… but everything starts from zero! I am eager to discuss your ideas, whether they are theoretical or empirical, and to guide you the best I can towards a relevant question. In terms of evaluation, I will put weight on your efforts and the creativity and quality of the paper, not on its length.

I may also assign some optional exercises along the way…but I will give you details later, depending on how the class evolves.
Reading List

*** indicates papers that I intend to discuss in lectures.
** indicates papers that I may not discuss in lectures but you should read.
* indicates papers that I consider highly recommended additional reading.

1. Foundations of Banks and Financial Contracts (3 weeks)


a) Liquidity Provision and Consumption Smoothing


b) Monitoring Delegation


c) Information Production


d) Incomplete Contracts and Commitment


2. Financial Frictions and Aggregate Fluctuations (1week)


3. Financial Crises (2 weeks)

a) Bubbles


b) Panics


*** Morris, S. and H.S. Shin (2000) “Rethinking Multiple Equilibria in Macroeconomics”, NBER Macroeconomics Annual, 139-161. (See also de discussions by Andy Atkeson and Helene Rey).


4. Regulation and Reputation in Financial Markets (1 week)


