Macroeconomics of Financial Markets  
ECON 712-001, Fall 2017  
University of Pennsylvania

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Syllabus

Course Description

Financial markets are critical for the functioning of the economy, but their effects are still poorly understood. This course discusses the state of the art knowledge about the positive and negative effects of financial markets in macroeconomics. We will first study the foundations of financial contracts and the rationale for the existence of financial intermediaries. Then, we will discuss the positive role of financial markets in promoting growth and their negative role in magnifying aggregate fluctuations. We will pay particular attention to financial crises and the fragility of financial markets to bubbles, panics and information surrounding debt. We will also discuss new theories of business cycles that display financial crises at their core. Finally, we discuss the new financial landscape (securitization and shadow banking) and the regulation challenges (both imposed by the government and induced by the market) that such a new environment introduces.

Just as a commitment device (to myself), I will hold office hours Thursdays from 5pm to 6pm. However, you are welcome to drop me a line if you want to schedule a meeting in some other moment. My door is always open in case you want to stop by, go for a coffee and chat.

Finally, I’m planning this class to be very flexible. We will be discovering new common interests along the way, and I rather accommodate them 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 (50% of the grade), a “referee report” (25% of the grade) and a presentation (25% of the grade).

You should see the term paper as an opportunity to start exploring a topic of your interest. Ideally this paper will lead you towards 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. You should let me know the topic you will work on and the way you plan to approach it by October 18.
When time comes, I will assign one paper to each one of you to present and to make a critical “referee report” about it. This paper may be related to your chosen topic for the term paper, but we can talk more about it later. We will schedule these presentations for the last two classes (November 28th and December 5th) to give ample time also to discuss the relation between the paper and your own ideas for the term paper. I may also assign some optional exercises along the way…but I will give you details later, depending on how the class evolves.

Class Schedule

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<th>Lecture</th>
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<th>Topic</th>
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<td>Lecture 1</td>
<td>August 29:</td>
<td>Foundations of Financial Contracts and Intermediation.</td>
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<td>Lecture 3</td>
<td>September 12:</td>
<td>Foundations of Financial Contracts and Intermediation.</td>
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<td>Lecture 5</td>
<td>September 26:</td>
<td>Financial Crises – Bubbles.</td>
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<td>Lecture 6</td>
<td>October 3:</td>
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<td>Lecture 7</td>
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<td>Financial Crises – Debt and Information.</td>
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<td>Lecture 8</td>
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<td>October 24:</td>
<td>Financial Crises and Business Cycles.</td>
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<td>October 31:</td>
<td>Financial Crises and Business Cycles.</td>
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<td>Securitization and Shadow Banking.</td>
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<td>November 14:</td>
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<td>Lecture 13</td>
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<td>Lecture 14</td>
<td>December 5:</td>
<td>Student Presentations</td>
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Reading List

In bold you can see the papers that I intend to discuss in lectures, * indicates papers that I may not discuss in lectures but you should read. The rest are papers that I consider highly recommended additional reading.

Lectures 1-3: Foundations of Financial Contracts and Intermediation.


a) Liquidity Provision and Consumption Smoothing


b) Monitoring Delegation


c) Information Production


d) Incomplete Contracts and Commitment


e) Information and Liquidity


Lecture 5: Financial Crises - Bubbles.


**Lecture 6: Financial Crises - Panics.**


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


**Lecture 7-8: Financial Crises – Debt and Information.**


Lecture 9-10: Financial Crises and Business Cycles.


Lecture 11: Securitization. Shadow Banking.


Lecture 12: Regulation


