Meeting time:  Wednesdays, 6:00 pm ñ 8:45 pm

Meeting Location:  To be determined

Email address:  david.m.arseneau@frb.gov

Grading:  The course grade will be based on three components: (1.) three homework assignments (30% of your final course grade); (2.) an in-class paper presentation (40% of your final course grade); and (3.) a final exam (30% of your final course grade).  The final exam is scheduled for:

   Final Exam:  Wednesday, December 12 (last scheduled class meeting)

All students are expected to take the final at the scheduled time.  There are no make-ups.

Text:  There is no assigned text for the class.  Much of what we will learn will be taken from journal articles and/or given to you in the form of lecture notes that I will provide.  That said, you may find the following text to be a useful supplement, though it is not required:  Microeconomics of Banking, by Xavier Freixas and Jean-Charles Rochet, MIT Press, 1998, 2nd Edition.

Homework:  I will assign three homework assignments during the course.  You are expected to turn in homework assignments on the assigned due date.  I will not accept late homework assignments.  I will make every effort to grade the home works and return them to you at the beginning of the following class.

Presentation:  You are required to do an in-class presentation in front of the class.  Students will work in teams throughout the semester, with my guidance, to develop a presentation summarizing a selected paper on banking and the macroeconomic.  Details for this component of the course will be given in a separate hand-out.

Math Preparation:  Economics requires math and we will use mathematical analysis in this course.  With regard to the degree of difficult, it is very much in line with the department guidelines available on the department website.  Much of what we will do builds on the material taught in the Macro Theory and Policy course.
Outline of topics: The following is a sketch of topics we will cover this semester; it may be modified as the course progresses.

September 5th: Introduction
An overview of the banking sector and its role in the macroeconomy
A quick look at the aggregate balance sheet of the US banking sector
Suggested Reading: Handouts

September 12th - September 19th: The Workhorse Dynamic Macro Model: A Review
Static consumption-leisure choice
Dynamic consumption-savings choice
Suggested Reading: Handouts

September 19th - September 26th: Financial Frictions in the Workhorse Model
Banks in an Arrow-Debreu economy
Financial market imperfections
Financial accelerator
Suggested reading: Handouts; Freixas and Rochet, Chapter 1; Quadrini (2011)
**** Homework #1 Distributed on September 19th ****

October 3rd: Bank Runs and Systemic Risk
Fractional reserve banking
The Diamond-Dybvig model
Suspension of convertibility / deposit insurance
Suggested reading: Handouts; Diamond (2007)
**** Homework #1 Due ****

October 10th: Empirical Evidence on Banking Crises / Policy Responses
Cross-country Evidence on Frequency, Causes and Consequences
Bernanke on the Great Depression
A case study: Sweden in the early-1990s
Suggested reading: Bernanke (1983); Reinhart and Rogoff Chapter 10; Englund (1999)
**** Homework #2 Distributed ****

October 17th:

NO CLASS

October 24th: Financial Stability and Bank Regulation
The Federal Reserve Balance Sheet Operations
Lender of Last Resort Function
Bank Regulation
Suggested Reading: Handouts; Freixas and Rochet, Chapter 9; Other TBD
**** Homework #2 Due ****
October 31st: International Banking and Cross-Border Linkages
- Empirical facts on the growth of international banking
- A simple model of cross boarder banks
- International aspects of the bank lending transmission channel
  
  **Suggested Reading:** Handouts; Other TBD
  
  **** Homework #3 Distributed ****

November 7th: Fiscal Policy, Sovereign Debt, and the Banking Sector
- Exposure of the banking system to sovereign debt
- Fiscal solvency and the health of the banking sector
- A simple model
  
  **Suggested Reading:** Handouts; Other TBD

November 14th: The European Debt Crisis
- A chronology and discussion of the European debt crisis with particular focus on the interaction between fiscal policy and the banking sector in a monetary union.
  
  **Suggested Reading:** Handouts; Other TBD
  
  **** Homework #3 Due ****

November 21st: Thanksgiving Break

NO CLASS

November 28th: Student Presentations

December 5th: Student Presentations

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FINAL EXAM (Wednesday, December 12th)