Meeting time: Mondays, 6:00 pm – 8:30 pm

Meeting Location: To be determined

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

Grading: The course grade will be based on two components: (1.) take home exam (50% of your final course grade); (2.) an in-class paper presentation (50% of your final course grade).

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 to help you prepare for the exam. You are not expected to turn in homework assignments, but I will post an answer key the class after it is due.

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 macroeconomy. 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.
Outline of topics: The following is a sketch of topics we will cover this semester – it may be modified as the course progresses.

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

The Workhorse Dynamic Macro Model: A Review
Static consumption-leisure choice
Dynamic consumption-savings choice

Suggested Reading: Handouts

Introducing Financial Frictions to the Workhorse Model
Banks in an Arrow-Debreu economy
Financial market imperfections: Collateral constraints; Costly state verification;
Financial accelerator

Suggested reading: Handouts; Freixas and Rochet, Chapter 1; Kiyotaki and Moore (1997); Bernanke and Gertler (1989); Brunnermeier, et al (2012)

Bank Runs and Systemic Risk
Fractional reserve banking
Models of Bank Runs: Diamond-Dybvig; Holstrom-Tirole
Suspension of convertibility / deposit insurance

Suggested reading: Handouts; Diamond (2007); Holstrom and Tirole (2000);

Empirical Evidence and the Cost of Crises
Cross-country Evidence on Frequency, Causes and Consequences
Bernanke on the Great Depression

Suggested reading: Bernanke (1983); Reinhart and Rogoff Chapter 10; Schulerick and Taylor (2013)

Case Studies
Sweden in the early 1990s
The run on Northern Rock during the 2007-'08 Crisis

Suggested reading: Englund (1999);Shin (2009)

Financial Stability and Bank Regulation
Current Issues in Financial Stability
Bank Regulation
Bank Stress Testing

Suggested Reading: Adrian, Covitz, and Liang (2013); Elliott, Feldberg, and Lehnert (2013); Financial Stability Oversight Council 2016 Annual Report

Student Presentations