

Instructor, Course Information & Objectives

Finance and the Macroeconomy—AS.440.631.81 Spring 2017

Instructor Information

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Office Hours:	By email or by appointment via phone

Course Description

This course explores the role of the financial sector in the overall macroeconomy. It begins by reviewing various financial instruments and markets, with a focus on their economic function. The course then examines the challenges to monetary and fiscal policy that arise because of macro-financial linkages. Further, a number of analytical tools for assessing financial stability and vulnerabilities to macro shocks are presented. Several case studies are used to illustrate real-world situations facing policymakers.

Prerequisites: 440.601 Microeconomic Theory and Policy; 440.602 Macroeconomic Theory and Policy.

Corequisites: 440.606 Econometrics; 440.640 Financial Economics, or equivalent

Course Goals & Learning Objectives

By the end of this course, you will be able to:

- Describe the role of financial markets and institutions in the macroeconomy.
- Discuss various types of financial frictions.
- Compare and contrast how economists have attempted to incorporate financial frictions in macro models.
- Discuss common features of historical financial crises.
- Describe how various economic policies can be used to prevent or mitigate financial crises.
- Analyze a country's financial sector using various tools to assess financial stability.

What To Expect in this Course

This course is 14 weeks in length and includes individual and group activities in a weekly cycle of instruction. Each week begins on a Monday and ends on the following Sunday. Please review the course syllabus thoroughly to learn about specific course outcomes and requirements.

Course Materials

Textbook

There is no assigned textbook for this course.

Required and Recommended Readings

A list of required and recommended readings are listed in a table below – under About Your Course.

Required Statistical Software

You will need to use a statistical package that can estimate and evaluate Vector Autoregression (VAR) models—such as Eviews, R, or Stata—for a team project during weeks 6 and 7.

Specific Technology Requirements & Skills for this Course

This course requires the use of a computer that complies with the following hardware specifications: (add in hardware specifications).

Learning online requires some basic knowledge of computer technology. At a minimum, you need to be able to:

- Navigate in and use Blackboard; the Blackboard Student Orientation course on your “My Institution” page
- Create and save MS Word, Excel, and PowerPoint documents
- Find basic resources on the Internet
- Create and organize files & folders on your computer
- Send, receive, and manage email

Course Structure

Directions for Students

A list of course topics and assignments for each week of the course is provided on the next pages 3-6 of this syllabus. Each week usually begins with one or two required readings (marked with an asterisk) in the tables below. Please do the readings before proceeding to the lecture or to other activities for the week. Most weeks then require you to listen to a narrated PowerPoint lecture. In addition, you are required to make 2-3 quality posting in the discussion form during most weeks. However, during weeks 6, 7, 10, and 11, you will work with a team to complete a team project rather than take part in the discussion forum.

Once you feel that you are ready to dive into the first week's activities, click on the **Lessons** button on the left-side navigation pane. Then, click on **Week 1**, where you will find the readings and lecture for week 1.

After completing the lesson, you are ready to begin the assignment for week 1. Click on the **Assignment Guidelines** button on the left-side navigation pane, where you will find a guide for all assignments.

Weekly Topics and Assignments

Week #	Start and End Date	Topic for Discussion & Assignments
I. Introduction and Overview		
1	Jan. 9-15	<p>A. The Role of Financial Markets</p> <p><i>Readings:</i> Chami and others (2010)* Bodie and others (2009) – Chapters 1-4</p> <p><i>PPT Lecture</i> (In Lessons area)</p> <p><i>Discussion Posts</i> (In Discussion area)</p>
2	Jan. 16-22	<p>B. Macro-Financial Linkages</p> <p><i>Readings:</i> Houben and others (2004)* Levine (2004)* Levine and Demirguc-Kunt (2008)</p>

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

II. Financial Frictions in Macroeconomic Models

3 Jan. 23-29 A. The Financial Accelerator

Readings: Bernanke and others (1996)*
Bernanke and others (1998)
Gertler and others (2007)
Iacoviello (2005)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

4 Jan. 30-Feb. 5 B. Models with a Financial Sector

Readings: Christiano and others (2010)*
Brunner and Kamin (1998)*

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

5 Feb. 6-12 C. Understanding Financial Crises

Readings: Allen and Gale (2007b)*
Cavallo and other (2005)*
Adrian and Shin (2008 and 2010)
Allen and Gale (2007a, c, and d)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

6 Feb. 13-19 D. Workshop on Financial Frictions I

Reading: Lown and Morgan (2006)*

PPT Lecture (In Lessons area)

*Begin Team
Presentation* (In Lessons area)

7 Feb. 20-26 E. Workshop on Financial Frictions II

*Complete Team
Presentation*

III. Assessing Financial Sector Stability

8 Feb. 27-Mar. 5 A. Tools for Assessing Financial Stability I

Readings: IMF (2009a and 2009b)*
Berg and others (2005)
Gray and others (2009)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

9 Mar. 6-12 B. Tools for Assessing Financial Stability II

Readings: Allen and others (2002)*
Haldane (2009)*
Rosenberg and others (2005)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

10 Mar. 13-19 C. Workshop on Financial Stability I

Reading: Croatia Case Study (Sections I
and II)*

PPT Lecture (In Lessons area)

*Begin Team
Paper* (In Lessons area)

11 Mar. 27-Apr. 2 D. Workshop on Financial Stability I I

Reading: Croatia Case Study (Sections III)*

PPT Lecture (In Lessons area)

*Complete Team
Paper*

IV. Financial Crises and Macroeconomic Management

12 Apr. 3-9

A. The Recent U.S. Financial Crisis

Readings: Brunnermeier (2009)*
Coval and others (2009)*
Claessens and others (2010)
Eichengreen (2008)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

13 Apr. 10-16

B. Macroeconomic Policies for Financial Stability

Readings: Blanchard and others (2010)*
BIS (2009 and 2010)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

14 Apr. 17-23

C. Regulation and Surveillance

Readings: Borio (2009)*
Hanson and others (2011)*
BIS (2011)
IMF (2011)

PPT Lecture (In Lessons area)

Discussion Posts (In Discussion area)

Assignments and Grading Policy

Assignments

Detailed instructions and guidelines for each assignment can be found by clicking on the **Assignment Guidelines** button on the left-side navigation pane in Blackboard. All assignments are due at **11:59pm on Sunday** of the relevant week.

Assignments	Due Date	Points Possible
Assignment 1: Postings to Discussion Forum <i>For most weeks, you are expected to make 2-3 postings to the Discussion Forum for that week. Postings should be high quality and reflect a high level of academic thinking and your own personal perspectives, opinion, and ideas.</i>	Various	100
Assignment 2: Team PowerPoint Presentation The purpose of the assignment is for you and your team to explore how one group of researchers have attempted to measure the effects of financial factors on the supply of bank credit in the U.S.	March 15	100
Assignment 3: Team Paper The purpose of the assignment is for you and your team to apply the various analytical tools to assess financial stability in Croatia.	April 19	100
Assignment 4: Individual Paper The purpose of the assignment is for you to dig a bit deeper into one of the several topics explored during the course.	May 5	100
Total		400

Grading

There are 400 possible points to be earned in this course, and your final grade will be based on the number of points you earn as a percentage to the total number of possible points.

Letter Grade	Percentage Range
A+	98% to 100%
A	94% to less than 98%
A-	90% to less than 94%
B+	88% to less than 90%
B	84% to less than 88%
B-	80% to less than 84%
C	70% to less than 80%
F	0% to less than 70%

Assignment Guidelines

How should assignments be submitted?

The Assignment Guidelines will indicate where assignments should be posted. When submitting documents to an assignment or forum, please specify the assignment name in the discussion thread and/or the document title. When creating files, include your name and the name of the assignment in the file title. Also, please be sure to only include one period in file names. The period should be between the file name and the extension. For example: abrunner_assignment1.doc

When will assignments be due?

Assignment due dates are listed in this syllabus and in the Assignment Guidelines.

When will completed assignments be returned?

The instructor will aim to return assignments to you within 5-7 days following the due date, depending on the length of the assignment. You will receive feedback under the My Grades link on the left-hand menu of your course. I will also actively participate in the discussion forums—either providing questions or clarifying comments on weekly postings.

What is the policy for late assignments?

You are expected to contact your instructor in advance if you think you cannot meet an assignment deadline. If an assignment is late and prior arrangements have not been made with the instructor, the assignment will receive a score of zero (0).

Course Participation & Communication Policy

Participation

What are the requirements for working in groups?

You are expected to work equitably within your group to complete collaborative group activities. At different points in the course, you will have an opportunity to privately rate your own participation and that of your group-mates.

Network Etiquette (i.e. “Netiquette”)

In this course, online discussion will be primarily take place in our online discussion board. In all textual online communication it's important to follow proper rules of netiquette.

What is netiquette? Simply stated, it's network etiquette -- that is, the etiquette of cyberspace. And "etiquette" means the social and cultural norms of communicating with others in a proper and respectful way. In other words, netiquette is a set of rules for behaving and interacting properly online.

The Netiquette “Core Rules” linked below are a set of general guidelines for cyberspace behavior. They probably won't cover all situations, but they should give you some basic principles to use in communicating online.

For Netiquette Core Rules visit [The Core Rules of Netiquette](#) web page.

Contacting the Instructor

Feel free to contact me with any comments, questions, or concerns. My email address is listed on the first page of this syllabus, and I tend to check my email frequently. You should expect to receive a response within 24 hours.

Course Protocols & Getting Help

Course Protocols

How will I know about changes to the course?

Frequently, you will find new announcements posted in the Announcements, which contain information about current course activities that you are working on and any changes to the course. Please check announcements every time that you log into Blackboard.

How should I communicate with others in this course?

You should communicate often with your classmates and with your instructor. The majority of communication will take place within the Discussion forums. When you have a question about an assignment or a question about the course, please contact your instructor, or post your question in the course's "Syllabus & Assignment Question" forum.

Are there any requirements for sending e-mail messages?

When you send an e-mail message to the instructor or to another participant in the course, please observe the following guidelines:

- Include the title of the course in the subject field ("Finance" is fine). Keep messages concise, and check spelling and grammar.
- Send longer messages as attachments.
- Sign your full name (the sender's email is not always obvious).

Getting Help

You have a variety of methods to get help on Blackboard. Please consult the help resources listed in the online classroom for additional information.

Important Note: If you encounter technical difficulty in completing or submitting any online assessment, immediately contact the [24-hour Help Desk](#). Also, contact your instructor at the email address listed atop this syllabus.

University Policies

General

This course adheres to all University policies described in the academic catalog. A few to pay close attention to are noted below.

Students with Disabilities

Johns Hopkins University is committed to providing reasonable and appropriate accommodations to students with disabilities. Students with documented disabilities should contact the coordinator listed on the [Disability Accommodations](#) page. Further information and a link to the Student Request for Accommodation form can also be found on the [Disability Accommodations](#) page.

Ethics & Plagiarism

JHU Ethics Statement: The strength of the university depends on academic and personal integrity. In this course, you must be honest and truthful. Ethical violations include cheating on exams, plagiarism, reuse of assignments, improper use of the Internet and electronic devices, unauthorized collaboration, alteration of graded assignments, forgery and falsification, lying, facilitating academic dishonesty, and unfair competition. Report any violations you witness to the instructor.

Read and adhere to JHU's [Notice on Plagiarism](#).

Dropping the Course

You are responsible for understanding the university's policies and procedures regarding withdrawing from courses found in the current catalog. You should be aware of the current deadlines according to the [Academic Calendar](#).

Getting Help

You have a variety of methods to get help on Blackboard. Please consult the help listed in the "Blackboard Help" link for important information. **If you encounter technical difficulty in completing or submitting any online assessment, please immediately contact the designated help desk listed on the [AAP online support page](#).** Also, contact your instructor at the email address listed atop this syllabus.

List of Assigned Readings

Adrian, Tobias, and Hyun Song Shin (2008), “Liquidity, Monetary Policy, and Financial Cycles,” Federal Reserve Bank of New York *Current Issues in Economics and Finance*, 14:1 (January/February), pgs 1-7.

Adrian, Tobias, and Hyun Song Shin (2010), “Liquidity and Leverage,” Federal Reserve Bank of New York Staff Report No. 328.

Allen, Franklin, and Douglas Gale (2007a), “History and Institutions,” Chapter 1 in *Understanding Financial Crises* (Oxford; New York: Oxford University Press).

Allen, Franklin, and Douglas Gale (2007b), “Intermediation and Crises,” Chapter 3 in *Understanding Financial Crises* (Oxford; New York: Oxford University Press).

Allen, Franklin, and Douglas Gale (2007c), “Bubbles and Crises,” Chapter 9 in *Understanding Financial Crises* (Oxford; New York: Oxford University Press).

Allen, Franklin, and Douglas Gale (2007d), “Contagion,” *Understanding Financial Crises* (Oxford; New York: Oxford University Press), Chapter 10.

Allen, Mark, and others (2002), “A Balance Sheet Approach to Financial Crisis,” IMF Working Paper No. 02/210 (Washington: International Monetary Fund).

Bank for International Settlements (2009), “Policy Responses to the Crisis,” *BIS 79th Annual Report*, Chapter VI, pp. 91-115.

Bank for International Settlements (2010), “Post-Crisis Policy Challenges in Emerging Market Economies,” Chapter IV in *BIS 80th Annual Report*, pp. 47-58.

Bank for International Settlements (2011), “Financial Regulatory Reform: Accomplishments, Pitfalls, Prospects,” *BIS 81st Annual Report*, Chapter V, pp. 64-82.

Berg, Andrew, Eduardo Borensztein, and Catherine Patillo (2005), “Assessing Early Warning Systems: How Have They Worked in Practice,” IMF Staff Papers, Vol. 52, No. 3 (Washington: International Monetary Fund).

Bernanke, Ben, Mark Gertler, and Simon Gilchrist (1996), “The Financial Accelerator and the Flight to Quality,” *The Review of Economics and Statistics*, 76:1 (February), pgs 1-15.

Bernanke, Ben, Mark Gertler, and Simon Gilchrist (1998), “The Financial Accelerator in a Quantitative Business Cycle Framework,” C.V. Starr Center for Applied Economics, Working Paper #98-03.

- Blanchard, Olivier, Giovanni Dell’Ariccia, and Paolo Mauro, 2010, “Rethinking Macroeconomic Policy”, Staff Position Note 10/03 (Washington; International Monetary Fund).
- Bodie, Zvi, Alex Kane, and Alan J. Marcus (2009), *Investments*, McGraw-Hill: New York.
- Borio, Claudio (2009), “Implementing the Macroprudential Approach to Financial Regulation and Supervision,” Banque de France *Financial Stability Review*, No. 13 (September).
- Brunner, Allan D., and Steven B. Kamin (1998), “Bank Lending and Economic Activity in Japan: Did ‘Financial Factors’ Contribute to the Recent Downturn?” *International Journal of Finance and Economics*, Volume 3, pgs 73-89.
- Brunnermeier, Markus (2009), “Deciphering the Liquidity and Credit Crunch 2007-08,” *Journal of Economic Perspectives*, Vol. 23, No. 1 (Winter), pp. 77-100.
- Cavallo, Michelle, Kate Kissalev, Fabrizio Perri, and Nuriel Roubini (2005), “Exchange Rate Overshooting and The Costs of Floating,” Federal Reserve of San Fransisco Working Paper 2005-07.
- Chami, Ralph, Connel Fullenkamp, and Sunil Sharma (2010), “A Framework for Financial Market Development,” forthcoming in *Journal of Economic Policy Reform*.
- Christiano, Lawrence, Roberto Motto, and Massimo Rostagno, (2010), “Financial Factors in Economic Fluctuations,” European Central Bank, Working Paper Series #1192.
- Claessens, Stijn, and others (2010), “Lessons and Policy Implications from the Global Financial Crisis,” IMF Working Paper 10/44 (Washington: International Monetary Fund).
- Coval, Joshua, Jakub Jurek, and Erik Stafford (2009), “The Economics of Structured Finance,” *Journal of Economic Perspectives*, Vol. 23, No. 1 (Winter), pp. 3-25.
- Eichengreen, Barry (2008), “Ten Questions About the Subprime Crisis”, *Financial Stability Review*, No.11 (February), Banque de France.
- Gertler, Mark, Simon Gilchrist and Fabio Natalucci (2007), “External Constraints on Monetary Policy and the Financial Accelerator,” *Journal of Money, Credit, and Banking*, Vol. 39 (March-April), pp. 295-330.
- Gray, Dale F., and others (2007), “New Framework for Measuring and Managing Macrofinancial Risk and Financial Stability,” NBER WP 13607 (Cambridge, Massachusetts: National Bureau of Economic Research).

- Haldane, Andrew (2009), “Why Banks Failed the Stress Test”, speech.
- Hanson, Samuel G., Anil K. Kashyap, and Jeremy C. Stein (2011), “A Macroprudential Approach to Financial Regulation,” *Journal of Economic Perspectives*, Vol. 25, No. 1, Winter, pp. 3-28.
- Houben, Aerd, Jan Kakes, and Garry Schinasi (2004), “Toward a Framework for Safeguarding Financial Stability,” International Monetary Fund, Working Paper #04/101.
- Iacoviello, Matteo (2005), “House Prices, Borrowing Constraints, and Monetary Policy in the Business Cycle,” *The American Economic Review*, 95:3 (June), pgs 739-64.
- International Monetary Fund (2009a), “Assessing the Systemic Implications of Financial Linkages,” Chapter 2 in *Global Financial Stability Report*.
- International Monetary Fund (2009b), “Detecting Systemic Risk”, Chapter 3 in *Global Financial Stability Report*.
- International Monetary Fund (2011), *Macroprudential Policy: An Organizing Framework*, March.
- Levine, Ross (2004), “Finance and Growth: Theory and Evidence”, working paper.
- Levine, Ross, and Asli Demirguc-Kunt (2008) “Finance and Economic Opportunity”, World Bank, WPS #4478.
- Lown, Cara, and Donald P. Morgan (2006), “The Credit Cycle and the Business Cycle: New Findings Using the Loan Office Opinion Survey,” *Journal of Money, Credit, and Banking*, 38:6, pgs. 1575-1597.
- Rosenberg, Christoph, and others (2005), *Debt-Related Vulnerabilities and Financial Crises*, IMF Occasional Paper No. 240 (Washington: International Monetary Fund).