

Economics 440.632

**Topics in Macroeconomics and Finance**

**Course Syllabus**

Professor David M. Arseneau

Fall Semester 2017

**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, 2<sup>nd</sup> 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 difficulty, 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**