

Course "Monetary and financial macroeconomics"

Hubert Kempf

M2 ETE

Academic Year 2015 - 2016.

This year, the subject of the course will

Finance and macroeconomics. Analyses and policy issues.

This course aims at presenting topics on monetary and financial macroeconomics. This year, it will focus on the interactions between finance and macroeconomics, using as a starting point the ongoing "Great Recession".

The current crisis is severe by historical standards, long-lasting, general and global. It is clearly grounded on financial stress, which has been able to invade the whole "real" economy. The banking system plays a crucial role in the transmission mechanism of this stress to the whole economy.

It uncovers the role of financial intermediaries and banks in the current state of market economies. Yet, it is not that different from preceding financial crises.

We shall survey significant scientific contributions which explore various aspects of the interplay between finance and macroeconomics. These contributions could help economists, managers and policymakers to better understand and handle this crisis (and future ones).

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Lectures: Wednesday, 11.00 – 12.30.

Programme (tentative)

1- Understanding the 2007-... crisis.

Reference :

Brunnermeier, "Deciphering the liquidity and credit crunch 2007-2008", *Journal of Economic Perspectives*, vol.23, 2009, 77-100.

Caballero, Ricardo J., and Pablo Kurlat. "The "surprising" origin and nature of financial crises: a macroeconomic policy proposal", Jackson Hole Symposium. (2009).

Gorton G., "The panic of 2007", *Journal of Economic Perspectives*, vol.23, 2009, 53-76.

Rogoff, K. S., "Globalisation and monetary policy: overview, recent issues", 2010, mimeo.

Shin, Hyun Song. "Reflections on Northern Rock: the bank run that heralded the global financial crisis." *The Journal of Economic Perspectives* (2009): 101-120.

Taylor, J. B., and J. C. Williams, "A black swan in the money market", *NBER working paper* n# 13943, 2008.

2 - Banking and financial crises. An historical account.

Reference :

Reinhart, C. M., and K. S. Rogoff, *This time is different. Eight centuries of financial folly*, Princeton University Press, 2009.

Bordo and al, "Is the crisis problem growing more severe?", *Economic Policy*, 2003, n° 32, 51-75.

3 - Financial factors of crises and cycles.

Reference:

Bernanke, B. S., "Non-monetary effects of the financial crisis in the propagation of the Great Depression", *American Economic Review*, vol.73, 1983, 257-276.

Bernanke, B. S. and M. Gertler, "Agency costs, net worth and business fluctuations", *American Economic Review*, vol.79, 1989, 14-31.

Carlstrom, C. T. and T. S. Fuerst, "Agency costs, net worth and business fluctuations: a computable general equilibrium analysis", *American Economic Review*, vol.87, 1997, 893-910.

4 - Credit rationing

Reference:

Stiglitz and Weiss, "Credit rationing in markets with incomplete information", *American Economic Review*, vol.71, 1981, 393-410.

5 - Bank credit and cycles.

Reference :

N. Kiyotaki and G. Moore, "Credit cycles", *Journal of Political Economy*, vol. 105, 1997.

6 - Banking panics

Reference :

D. Diamond and P. Dybvig, "Bank runs, liquidity and deposit insurance", *Journal of Political Economy*, vol.91, 1983, 401-419;

Xavier Freixas and Jean-Charles Rochet, *The microeconomics of banking*, MIT Press, 1997, chapitre 7.

Diamond, D.W., and R. J. Rajan, "Liquidity risk, liquidity creation and financial fragility: a theory of banking", *Journal of Political Economy*, vol.109, 2001, pp.287-327.

Bernardo, A., and I. Welch, "Financial market runs" , *Quarterly Journal of Economics* vol.119, 2004, 135-138.

7 - Deposit insurance and commitment.

Reference:

Ennis H. M., and T. Keister, "Bank Runs and Institutions: The Perils of Intervention", *American Economic Review*, vol. 99, 2009.

Cooper R. and H. Kempf, "Deposit insurance and bank liquidation without commitment: Can we sleep well?", *Economic Theory*, forthcoming.

8 - Optimal financial crises.

Reference:

Allen, F. and D. Gale, "Optimal financial crises", *Journal of Finance*, 53, 2000, 1245-83.

9 - Asset prices. CAPM and beyond.

Reference:

Campbell, John Y. "Asset prices, consumption, and the business cycle." *Handbook of macroeconomics* 1 (1999): 1231-1303.

Campbell, John Y. "Consumption-based asset pricing." *Handbook of the Economics of Finance* 1 (2003): 803-887.

Campbell, J. Y. (2014). "Empirical Asset Pricing: Eugene Fama, Lars Peter Hansen, and Robert Shiller". *The Scandinavian Journal of Economics*, 116: 593–634.

Cochrane J. H., *Asset Pricing*, Princeton University Press, 2009.

Wickens M., *Macroeconomics theory*, Princeton University Press, 2006.

10 - Bubbles

Reference:

Abreu, D., and M. K. Brunnermeier : "Bubbles and Crashes", *Econometrica*, vol.71, 2003, 173–204.

Allen, F., and G. Gorton : "Churning Bubbles", *Review of Economic Studies*, vol. 60, 1993, 813–836.

Allen, F., S. Morris, and A. Postlewaite : "Finite Bubbles with Short Sale Constraints and Asymmetric Information", *Journal of Economic Theory*, vol.61, 1993, pp.206-229.

Blanchard, O. J., and M. W. Watson (1982): "Bubbles, Rational Expectations, and Financial Markets," in *Crisis in the Economic and Financial Structure*, ed. by P. Wachtel, pp. 295–315. Lexington, Lexington, MA.

Tirole, J., "On the Possibility of Speculation under Rational Expectations", *Econometrica*, vol.50, 1982, pp.1163-1182.

Tirole, J., "Asset Bubbles and Overlapping Generations", *Econometrica*, vol.53, 1985, pp.1499-1528.

11 - Asset prices and monetary policy.

Reference

Campbell, J. Y., *Asset prices and monetary policy*, University of Chicago Press, 2008.

Bernanke, B. S., et M. Gertler, "Should Central Banks Respond to Movements in Asset Prices?", *American Economic Review Papers and Proceedings*, vol. 91, 2001, pp. 253-257.

Adrian, T. and Shin, H.S., "Liquidity, monetary policy, and financial cycles", *Current Issues in Economics and Finance*, vol.14, 2008, pp. 1-7.

Mishkin, Frederic S. 2009. "Is Monetary Policy Effective during Financial Crises?", *American Economic Review*, vol.99, 2009, 573–77.

Gilchrist, S. and Leahy, J.V., "Monetary policy and asset prices", *Journal of Monetary Economics*, vol.49, 2002, pp.75-97.

General Bibliography:

Franklin Allen and Douglas Gale, *Comparing financial systems*, Princeton UP, 2001.

Franklin Allen and Douglas Gale, *Understanding financial crises*, Clarendon Press, 2007.

Freixas Xavier and Jean-Charles Rochet, *The microeconomics of banking*, MIT Press, 1997.

Ljungqvist Lars and Thomas Sargent, *Recursive Macroeconomic Theory*, MIT Press.

Walsh C., *Monetary Theory and Policy*, MIT Press, 2nd edition.

Wickens M., *Macroeconomics theory*, Princeton University Press, 2006.

Woodford Michael, *Interest and prices*, Princeton UP, 2004.