

**The Financial System**  
(provisional, subject to revision)

**1. INTRODUCTION**

This course will review the basics of monetary policy, including how the money supply is controlled and the role of the banking system. The course will then cover the principles of asset pricing, the role of collateral constraints and other informational problems in banking, and how those factors induce feedback loops in the macroeconomy. A portion of the course will address the analysis and implications of financial regulation or non-regulation, especially in regard to the financial crisis of 2008. Prerequisites: Econ 301/311 and 302/312, and Econ 330. Econ 310 is recommended.

**2. OFFICE HOURS**

Prof. Menzie Chinn: MW 12:30-1:30  
7418 Social Sciences Bldg., 262-7397  
e-mail: [mchinn@lafollette.wisc.edu](mailto:mchinn@lafollette.wisc.edu)

Updated information will be posted on the course website,  
[http://www.ssc.wisc.edu/~mchinn/web435\\_fl16.html](http://www.ssc.wisc.edu/~mchinn/web435_fl16.html).

**3. SCHEDULE AND READINGS**

There is no textbook. However, for background, one can refer to Stephen Cecchetti and Kermit Schoenholtz, *Money, Banking and Financial Markets*, 4th Edition (McGraw-Hill) (abbreviated CS below). A substitute is Frederic Mishkin, *The Economics of Money, Banking and Financial Markets*. There is one required book, Chinn and Frieden, *Lost Decades* (W.W.Norton, 2012) (abbreviate CF below). Required readings are listed below, and additional required and optional readings will be assigned during the semester from the Web. On occasion, you will also be expected to refer to the following weblog for current macroeconomic commentary: <http://www.econbrowser.com> .

LEC.	DATES	CS	CF	READING	TOPICS
1	9/7	1-3	Pref		Introduction
2-4	9/12-19			IS-LM, PCO	IS-LM
5	9/21		1	ADAS1,2	AD-AS
6-7	9/26-28	4-6			Interest rates
8-9	10/3-5	7		EHTS	Term structure of interest rates
<b>10</b>	<b>10/10</b>				<b>MIDTERM 1</b>
11	10/12	8		Asset prices	Asset prices
12	10/17			EMH/News	EMH & "News"

LEC.	DATES	CS	CF	READING	TOPICS
13	10/19	11			Financial structure
14-15	10/24-26	12-13			Banks and nonbanks
16-17	10/31-11/2	14		BBS	Banking regulation
<b>18</b>	<b>11/7</b>				<b>MIDTERM 2</b>
19	11/9	15-16			Central banks: Federal Reserve/ECB
20	11/14	17			Money supply process
21	11/16	18		Ru	Monetary policy
22-23	11/21-23			BB,CC-LM	Credit channel
24	11/28		2	BGG	Financial accelerator
25	11/30	9	3	CJS	Derivatives in crisis
26-27	12/5-7		4-5	GHKS, Br.	Financial crisis
28-29	12/12-14		7-8	DFP, ACRW	Post-crisis reforms

- ISLM: Notes on IS-LM
- PCO: Notes on Transactions and Portfolio Crowding Out
- AD-AS1: Notes on Aggregate Demand/Aggregate Supply
- AD-AS1: Notes on Aggregate Demand/Aggregate Supply w/Expectations
- EHTS: Notes on Expectations Hypothesis of Term Structure
- Asset Prices: Notes on Asset Pricing, “News”, and EMH
- BBS: Notes on Bank Balance Sheets
- MSP: Notes on Money Supply Process
- Ru: Glenn Rudebusch, “The Fed’s Monetary Policy Response to the Current Crisis,” *FRBSF Economic Letter* 2009-17, May 22, 2009.
- BB: Ben Bernanke, Alan Blinder, “Credit, Money and Aggregate Demand,” *American Economic Review* 78(2) (May, 1988), pp. 435-439.
- BGG: Bernanke, Gertler and Gilchrist, “The Financial Accelerator and the Flight to Quality,” *The Review of Economics and Statistics* 78(1). (Feb., 1996): 1-15.
- GHKS: David Greenlaw, Jan Hatzius, Anil K Kashyap, Hyun Song Shin, “Leveraged Losses: Lessons from the Mortgage Market Meltdown,” paper presented at US Monetary Policy Forum Conference, February 29, 2008.
- Br: M. Brunnermeier, Deciphering the Liquidity and Credit Crunch, 2007-2008,” *Journal of Economic Perspectives* 23(1) (Winter 2009).
- CJS: J.D. Coval, J. Jurek, E. Stafford, “The Economics of Structured Finance,” *Harvard Business School Working Paper* 09-060. Published *Journal of Economic Perspectives* 23(1) (Winter 2009).
- DFP: Mathias Dewatripont, Xavier Freixas, and Richard Portes, editors, *Macroeconomic Stability and Financial Regulation: Key Issues for the G20* (CEPR, 2 March 2009), pp 91- .
- ACRW: Viral Acharya, Thomas Cooley, Matthew Richardson and Ingo Walter, "Dodd-Frank: One Year On..." *Dodd-Frank One Year On* (CEPR/Vox, 2011).

#### **4. GRADING**

Letter grading is determined as follows:

10%	Problem sets
50%	Midterm (×2)
40%	Term paper

Late assignments will not be accepted for credit. Although the problem sets do not constitute a large portion of the grade, I strongly encourage you to do the assignments in a timely and serious fashion. The problem sets provide valuable information regarding your grasp of the concepts.

#### **5. THE TERM PAPER**

A 10 page term paper will be due at the end of the semester. You will have latitude in terms of the choice of topic. However, I will be able to give you more guidance on certain topics than others. Additional details regarding this assignment, along with suggested readings, will be provided later in the term.

E435syllabus\_f16.docx  
30.08.2016