

Topics in Money and Financial Markets

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Course Description

The course is a module of the profile group “Macroeconomics, Money and Financial Markets”. This is an advanced undergraduate course that requires a solid knowledge of intermediate micro, macro and econometrics.

The course covers topics at the intersection between macroeconomics and finance. We will start by discussing business cycles and asset pricing. Our theoretical point of departure will be the standard models in modern dynamic macroeconomics that assume competitive markets and abstract from financial frictions. We will then confront these models with empirical observations and evaluate in how far they can explain the data. Here we will find some empirical success, but also failures. Based on these findings we will investigate financial frictions and show how they might arise due to enforcement problems and asymmetric information at the micro level. We will then discuss macroeconomic models that include financial frictions and how they improve the explanatory power of the standard models.

The remaining topics are mainly inspired by the recent financial and economic crisis and are very active areas of current research. One criticism of existing macro models with and without financial frictions is that they do not contain banks. We will discuss the basics of financial intermediation and the fragility of banks due to bank runs. Next we will turn to leverage cycles, the phenomenon that the amount of collateral a borrower needs to provide in order to borrow a given amount varies enormously over time. We then discuss research on current and historical financial crises. Since the housing market has featured prominently in the recent episode we will also discuss booms and busts in housing markets and the U.S. mortgage crisis.

List of Topics

1. Business Cycles: The Main Facts and Theories
2. Asset Pricing and some “Puzzles”
3. Micro-Foundations for Financial Frictions
4. Macroeconomic Models with Financial Frictions
5. Financial Intermediation and Bank Runs
6. Leverage Cycles
7. Financial Crises
8. Housing Booms and Busts
9. Mortgage Crises

A detailed syllabus will be distributed in the first lecture.