

Monetary policy and financial markets

Wintersemester 2024/2025

Syllabus

Instructor:

Günter W. Beck

Office hours:

On appointment

Lectures and classes:

See unisono.

Website:

See unisono.

Purpose:

The purpose of the course is to provide students with a thorough analysis of selected major topics in monetary economics and related financial-market issues. The topics covered in the course are listed below. Both theoretical and empirical aspects will be covered. Furthermore, implications for the conduct of monetary policy and financial market participants will be emphasized.

A detailed course outline is given below.

Course structure:

The course is split into three parts.

First part: Introduction in fundamental concepts and models in monetary policy and financial markets. In the first part, “regular” lectures will be held. These lectures aim to provide a profound introduction into basic concepts and theoretical models in the field of monetary policy and financial markets. The first part will be concluded by a midterm exam.

Second part: Advanced analysis of topics in monetary policy and financial markets. In the context of the second part, students are asked to conduct a

deepened analysis of one of the topics of the first part. The second part will have the character of a seminar. To successfully complete the second part, students are expected to write a term paper and give a presentation based on their term paper. The presentation will be conducted in the context of an event which is supposed to mimic an academic workshop on the topic. The presentation can be either based on an original paper (taken from a list of articles to be provided) or an empirical analysis conducted by the student.

Third part: Monetary policy and financial markets in practice. The focus of this course part is a practical one. Based on some historical event in the form of a surprise news for some macroeconomic variable, students are expected to present a case study illustrating the interplay between monetary policy and financial market outcomes and activities. The case study should use the concepts and rationales developed in the course. Moreover, it should exhibit in detail which responses the considered macroeconomic surprise event triggered in monetary policy circles and various financial markets and how macro-oriented institutional investors anticipating this event could have used it to generate income.

Further details regarding the midterm, the organization of the seminar and the case-study presentation event, the requirements for the presentation, term paper and the case study will be discussed at the beginning of the first lecture. The course grade will be based on all four contributions.

Course requirements:

Students will be graded upon the following:

- Midterm exam (40%)
- Term paper (20%)
- Presentation (20%)
- Case study (20%)

Readings:

The main references for the course are:

Freixas, Xavier and Jean-Charles Rochet (2008), Microeconomics of Banking, 2nd Edition, MIT Press, Princeton (denoted by FR in the following).

Walsh, Carl (2017), Monetary theory and policy, 4th edition. MIT Press (denoted by CW in the following).

Course overview:

1. Introduction

2. A primer on inflation, its importance and its measurement

3. Monetary economics

- (a) Evidence on money, prices, and output (CW, chapter 1)
- (b) Money and public finance (CW, chapter 4)
- (c) Nominal price and wage rigidities (CW, chapter 7)
- (d) New Keynesian monetary economics (CW, chapter 8)

4. Financial economics

- (a) Financial intermediaries in a world with perfect capital markets (FR, chapter 1)
- (b) The role of financial intermediaries (FR, chapter 2)
- (c) Microfoundations of frictions in credit markets (CW, chapter 10; FR, chapter 5)
- (d) Individual bank runs and systemic risk (FR, chapter 7)

5. Monetary policy and financial markets

- (a) The term structure of interest rates (CW, chapter 10)
- (b) Macroeconomic implications of financial frictions (CW, chapter 10; FR, chapter 6)

6. An introduction into the use of “big data” in monetary and financial economic research

- (a) Big data in monetary economics
- (b) Big data in financial economics