



**Economics 435: Financial System
Fall 2019 (3 units)**

MW 4:00PM - 5:15PM, SOC SCI 5231 Lecture

This class meets for two 75-minute class periods each week over the spring semester and carries the expectation that students will work on course learning activities (reading, writing, problem sets, studying, etc.) for about 3 hours out of classroom for every class period.

Course website: http://www.ssc.wisc.edu/~mchinn/web435_f19.html

INSTRUCTOR

Professor Menzie Chinn
MW 2:30-3:30 (provisional, subject to change)
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OFFICIAL COURSE DESCRIPTION

Banking, credit markets and financial institutions, monetary and debt management policies; relation of national monetary and credit institutions to the international system.

Must have completed Econ 301 or 311, and Econ 302 or 312, and Econ 330.

LEARNING OUTCOMES

- Students will describe, predict, and analyze macroeconomic behavior.
- Students will evaluate evidence in the context of models to determine best macroeconomic policy.
- Students will examine theoretical and empirical literature and develop conclusions.

GRADING

- 10% problem sets
- 50% midterm exams (x2),
- 40% term paper (10 pages)
- Final grade is based on curve of final aggregate scores
- Attendance and class participation are not part of the grading

REQUIRED TEXTBOOK, SOFTWARE & OTHER COURSE MATERIALS

- Required: Chinn and Frieden, *Lost Decades* (W.W.Norton, 2012) (abbreviated **CF** below)
- Recommended: Stephen Cecchetti and Kermit Schoenholtz, *Money, Banking and Financial Markets*, 5th Edition (McGraw-Hill, 2017) (abbreviated **CS** below). A substitute is Frederic Mishkin, *The Economics of Money, Banking and Financial Markets*.
- Additional required readings in schedule. Some readings to be assigned from <http://www.econbrowser.com> .

EXAMS, QUIZZES, PAPERS & OTHER MAJOR GRADED WORK

- Midterm exams on 10/16, 11/20
- Exams are in-class, closed-book, no calculators, cumulative,
- No make-up exams; missed exam points will be apportioned to other components of the grade (with approved excuse).

HOMEWORK & OTHER ASSIGNMENTS

- Problem sets can be done in groups.
- Problem sets are to be submitted in lecture.
- No late assignments accepted. Arrangements can be made for early submission.

3. SCHEDULE AND READINGS

LEC.	DATES	CS	CF	READING	TOPICS
1	9/4	1-3	Pref.		Introduction
3	9/11				Hamilton Lecture***
2-5	9/9-18			IS-LM, PCO	IS-LM
6	9/23			ADAS1,2	AD-AS
7	9/25	4-6			Interest rates
8-9	9/30-10/2	7		EHTS	Term structure of interest rates
10	10/7	8		Asset prices	Asset prices
11	10/9			EMH/News	EMH & "News"
12	10/14	11			Financial structure
13	10/16				MIDTERM 1
14-15	10/21-23	12-13			Banks and nonbanks
16-17	10/28-10/30	14		BBS	Banking regulation
18	11/4	15-16			Central banks: Federal Reserve/ECB
19	11/6	17			Money supply process
20	11/11	18		Taylor	Monetary policy
21-22	11/13-18			BB,CC-LM	Credit channel
23	11/20				MIDTERM 2
24	11/25			BGG	Financial accelerator
25	11/27				No meeting

LEC.	DATES	CS	CF	READING	TOPICS
26	12/2	9	3	CJS	Derivatives in crisis
27-29	12/4-11		4-5	GHKS, Br.	Crisis & lessons
28-29	12/11-13		7-8	DFP, ACRW	Post-crisis reforms
25	11/28			BGG	Financial accelerator
26	12/3	9	3	CJS	Derivatives in crisis
27-28	12/5-10		4-5	GHKS, Br.	Financial crisis
29	12/12		7-8	ACRW	Post-crisis reforms

*** Economics Department special event: The State of The Economy Featuring James Hamilton. Registration required.

<https://www.eventbrite.com/e/the-state-of-the-economy-featuring-james-hamilton-tickets-68504539923>

- ISLM: Notes on IS-LM
- PCO: Notes on Transactions and Portfolio Crowding Out
- AD-AS1: Notes on Aggregate Demand/Aggregate Supply
- AD-AS2: 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
- Taylor: Notes on the Taylor Rule
- 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).
- ACRW: Viral Acharya, Thomas Cooley, Matthew Richardson and Ingo Walter, “Dodd-Frank: One Year On...” *Dodd-Frank One Year On* (CEPR/Vox, 2011).

RULES, RIGHTS & RESPONSIBILITIES

<http://guide.wisc.edu/undergraduate/#rulesrightsandresponsibilitiestext>

ACADEMIC INTEGRITY

By enrolling in this course, each student assumes the responsibilities of an active participant in UW-Madison’s community of scholars in which everyone’s academic work and behavior are held to the highest academic integrity standards. Academic misconduct compromises the integrity of

the university. Cheating, fabrication, plagiarism, unauthorized collaboration, and helping others commit these acts are examples of academic misconduct, which can result in disciplinary action. This includes but is not limited to failure on the assignment/course, disciplinary probation, or suspension. Substantial or repeated cases of misconduct will be forwarded to the Office of Student Conduct & Community Standards for additional review. For more information, refer to studentconduct.wiscweb.wisc.edu/academic-integrity/.

ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES

McBurney Disability Resource Center syllabus statement: “The University of Wisconsin-Madison supports the right of all enrolled students to a full and equal educational opportunity. The Americans with Disabilities Act (ADA), Wisconsin State Statute (36.12), and UW-Madison policy (Faculty Document 1071) require that students with disabilities be reasonably accommodated in instruction and campus life. Reasonable accommodations for students with disabilities is a shared faculty and student responsibility. Students are expected to inform faculty [me] of their need for instructional accommodations by the end of the third week of the semester, or as soon as possible after a disability has been incurred or recognized. Faculty [I], will work either directly with the student [you] or in coordination with the McBurney Center to identify and provide reasonable instructional accommodations. Disability information, including instructional accommodations as part of a student's educational record, is confidential and protected under FERPA.”

<http://mcburney.wisc.edu/facstaffother/faculty/syllabus.php>

DIVERSITY & INCLUSION

Institutional statement on diversity: “Diversity is a source of strength, creativity, and innovation for UW-Madison. We value the contributions of each person and respect the profound ways their identity, culture, background, experience, status, abilities, and opinion enrich the university community. We commit ourselves to the pursuit of excellence in teaching, research, outreach, and diversity as inextricably linked goals.

The University of Wisconsin-Madison fulfills its public mission by creating a welcoming and inclusive community for people from every background – people who as students, faculty, and staff serve Wisconsin and the world.” <https://diversity.wisc.edu/>