Overview

We study how monetary policy affects the financial system and through this the “real” economy. We look at how the short interest rate and other central bank tools impact the supply of liquidity by the financial system and the risk premium on assets. We discuss the banking system in detail: what drives the business of banking, how is this affected by the short interest rate, and how do banks manage interest rate risk. We discuss the different types of lending, including mortgage, commercial and, personal, and look at how and why this lending is divided between the bond market, banks, and non-bank intermediaries. We study historical evidence on inflation, monetary policy, and business cycles and analyze how well this evidence is explained by alternative models.

The course covers both theory and empirics. It makes use of approaches and methods from empirical corporate finance and asset pricing. The emphasis is on empirical analysis. We examine the use of cross-sectional analysis of micro data for conducting well-identified tests of macroeconomic theories. I also emphasize institutional details of the financial system. A central goal of the class is to highlight and stimulate discussion of open questions and promising directions for future research in this area.

Reading List

This is a broad reading list of papers on topics related to the course. I include this mainly as a general reference, though of course I will discuss results from these papers in the class. I will add to it during class.

1. Financial Intermediation Theory

2. Coexistence of Deposits and Lending/Maturity Transformation


3. Monetary Policy and the Deposits Channel


4. Empirical Evidence on Channels of Monetary Policy


5. Financial Crises


6. Credit cycles

7. The Zero Lower Bound

8. Quantitative Easing

9. Monetary Policy and Risk Premia


11. Inflation and Monetary Policy Channels

12. Shadow Banking


13. Intermediary Asset Pricing


14. International Liquidity Spillovers

15. **Cross-sectional Estimates to Aggregate Impact of Monetary Policy**

