Barcelona School of Economics

COURSE SYLLABUS **19F040**

Macro-Finance

3 ECTS **TERM 3** **ELECTIVE COURSE**

Professor

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Introduction

This course studies the interactions between finance and macroeconomics. The first part of the course considers how developments in the real economy affect financial variables, in particular the prices of risky assets. It will cover consumption-based asset pricing theory and the associated empirical puzzles, as well as alternative theories offering a resolution to these puzzles. The second part of the course will study how financial shocks affect the real economy, with a particular focus on banking crises and deleveraging. The course will use a mix of empirics and theory, often making use of long-run data to shed light on the underlying properties of various rare macro-financial crisis events.

Objectives

This course will give students a deeper understanding of the links between finance and the real economy. This includes better understanding of why the returns on risky assets are so high, why financial volatility is so much higher than

macroeconomic volatility, and why financial crises are so costly. After completing the course, students will have a better handle on the economic forces underlying the 2007-08 financial crisis, and the causes and consequences of booms and busts in financial markets over the recent decades and beyond.

Required Background Knowledge

Undergraduate knowledge of asset pricing, macroeconomics, and econometrics is required. Gradual level knowledge of econometrics and some masters level knowledge of asset pricing and macroeconomics, as well as some knowledge of banking is desirable.

Learning outcomes

i. Understand the macroeconomic forces that drive asset prices
ii. Understand how financial risks affect the real economy

Methodology

The course uses a mix of empirics and theory. Working with data will form an integral part of the course. This includes both examining simple summary statistics and how well they line up with the predictions of theoretical models, and running simple regression analyses. Much of the empirical work will take a big-picture view drawing on long-run macro-financial data (available at, for example, macrohistory.net/data), but students can also focus on more recent data for their country of interest (e.g., their home country).

Evaluation

Exam (70%) and homework assignments (30%)

Course contents

Part 1: Macro in Finance (lectures 1-7)

1. Consumption-based asset pricing and the risk premium puzzle

2. Asset prices, fundamentals, and the volatility puzzle

3. Solutions to asset pricing puzzles (non-standard consumption-based theories, intermediary asset pricing, behavioural theories) and their empirical performance

Part 2: Finance in Macro (lectures 8-10)

4. Macroeconomic effects of financial disruption

5. Mechanisms behind finance-to-macro linkages

Bibliography

There is no set textbook for the course. For part 1, we'll be relying on a mix of textbook and research articles; for part 2 only on research articles. Below is the list of key papers for each part; a more detailed bibliography for each lecture will accompany the course.

Part 1 Textbook

- Cochrane, J. (2005). Asset Pricing, Revised Edition. Princeton University Press

Part 1 Research articles

- Mehra, Rajnish, and Edward C. Prescott. 1985. The Equity Premium: A Puzzle. Journal of Monetary Economics 15(2): 145–161
- Shiller, Robert J. 1981. Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends? American Economic Review 71(3): 421–436
- Cochrane, John H. 2008. The Dog That Did Not Bark: A Defense of Return Predictability. Review of Financial Studies 21(4): 1533–1575
- Cochrane, John H. 2017. Macro-Finance. Review of Finance 21(3): 945–985.
- Muir, Tyler. 2017. Financial Crises and Risk Premia. Quarterly Journal of Economics 132(2): 765–809.

Part 2 Research articles

- Jorda, Oscar, Schularick, Moritz, and Taylor, Alan M. 2013. When Credit Bites Back. Journal of Money, Credit and Banking 45(2): 3–28
- Mian, Atif, and Amir Sufi. What explains the 2007–2009 drop in employment? Econometrica 82, no. 6 (2014): 2197-2223.
- Mian, Atif, Amir Sufi, and Emil Verner (2017). Household Debt and Business Cycles Worldwide. Quarterly Journal of Economics 132.4, pp. 1755–1817.
- Gilchrist, Simon and Egon Zakrajšek (2012). Credit Spreads and Business Cycle Fluctuations. American Economic Review 102.4, pp. 1692–1720.
- Eggertsson, Gauti B., and Paul Krugman. Debt, deleveraging, and the liquidity trap: A Fisher-Minsky-Koo approach. Quarterly Journal of Economics 127, no. 3 (2012): 1469-1513.

Professor's Biography

Dmitry Kuvshinov is an Assistant Professor at Universitat Pompeu Fabra. He holds a PhD in Economics from the University of Bonn, MSc in Economics & International Financial Economics from Warwick University, and a BA in

Economics & Management from the University of Oxford. Prior to his PhD, he worked for 4 years as an economist at the Bank of England. His research uses long-run data to study the interactions between finance and the macroeconomy, with a focus on the drivers of macro-financial risk. His research has been published in the *Quarterly Journal of Economics, Journal of Financial Economics, and the European Economic Review.*