

19F040

Macro-Finance

3 ECTS

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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 volatility affects the real economy, with a particular focus on financial crises and debt 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 recent 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. Basic masters level understanding of these three subjects, as well as some knowledge of banking is desirable.

### Learning Outcomes

- i. Understand the macroeconomic forces that drive asset prices
- ii. Understand how financial volatility affects the real economy

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### 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](http://macrohistory.net/data)). This will be complemented by exercises focusing more specifically on the most recent crisis event.

### Evaluation

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

### Course contents

#### Part 1: Macro in Finance

1. Consumption-based asset pricing
2. Empirical tests of the consumption-based model and asset pricing puzzles
3. Solutions to asset pricing puzzles, and their empirical performance. Non-standard consumption-based theories, investment-based asset pricing, intermediary asset pricing, behavioural theories.

#### Part 2: Finance in Macro

4. Macroeconomic effects of financial crises and asset price crashes
5. Understanding the channels: financial frictions, debt deleveraging

### Bibliography

Most of the material will be based on specific research articles, but the following references will be particularly useful

- Cochrane, J. (2005). *Asset Pricing*, Revised Edition. Princeton University Press
- Brunnermeier, M, Eisenbach, T. and Y. Sannikov (2013). "Macroeconomics with Financial Frictions: A Survey," in Acemoglu, D., Arellano, M. and E. Dechel (eds.), *Advances in Economics and Econometrics*. Cambridge University Press

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### 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. In the past, he has worked for the Bank of England as part of the prudential policy division. His research focuses on the interactions between finance and macroeconomics, with particular emphasis on using long-run data to shed light on rare crisis events and secular trends in financial and macroeconomic variables. His research has been published in the *Quarterly Journal of Economics* and the *European Economic Review*.