Coverage: This course studies the role that financial markets, institutions and money play in resource allocation. We explore these questions analytically, using the tools of modern economic theory, and also try to get a quantitative feel for the data. In addition, in the last portion of the course, I want to cover some pressing topics. I discuss those at the end of the course outline.

COVID: This class is going to be online this Fall because we are operating under the shadow of the COVID epidemic. To accommodate this, we will some key changes. First, I will develop a set of pre-recorded video lectures to accompany the slides which you can watch independently. Second, we will have recorded online Zoom discussions each week where we discuss the lectures during the regular class time. Third, we will make use of online discussion groups either through Canvas or Piazza. Fourth, we will put extra weight on the weekly homework assignments since in-class exams are probably out.

All of the lecture slides and recorded lectures will be available through Canvas. This material should not be shared with anyone outside the class.

Grading: We will not be able to rely as heavily on standard in-class exams unfortunately. As a result:

- There will be one Midterm and a Final which each count 25%. These will be in some sort of online format.
- We will have an expanded set of generally weekly homework assignments which will count 50% of your grade.
- The midterm is tentatively scheduled for Thursday October 15.
- The final will take place during it’s regularly scheduled slot in Finals Week.

Textbooks: The course will use a new text (HC) I have written:

The book should be available in the bookstore. You can also acquire it through Amazon, and there is a Kindle version. Because the book is the product of my lecture notes and slides, we will end up following it fairly closely throughout most of the course. While the course also draws upon several texts, the only other book I encourage you to buy is by Ferguson (NF), because it is inexpensive and has a lot of interesting material on financial history.


Other Materials: You will be submitting your homework assignments and potentially even your exams through Canvas. So you will need to acquire as means of creating pdf files from your written material. This means having access to a scanner or get something like the camscanner app for your phone.

Math Requirements: The technical level of the course is moderately high. We make extensive use of optimization, calculus, first-order conditions and probability theory. For that reason, I always start with a math review, as well as review any math we use right before doing so.

Course Outline:

I. Math Review
   Reading HC chapter 18, and math review lecture slides.

II. An Overview of the Financial System and Market Operations
   Reading: HC chapters 1 & 2, and lecture 1.

IV. The Risk Neutral Asset Valuation Model, HC chapters 3-4, lecture 2.
   Pricing Bonds and Stocks
   Bubbles
   Growth and Asset Prices

V. Problems and Fixes for the Risk Neutral Model, HC chapter 5, lecture 3.
   Nominal Asset Pricing
   Liquidity Benefits from Short-term Bonds
   Risk Aversion
   Risk Aversion and Growth

VI. The Arbitrage-based Pricing Model, HC chapters 6-7, lectures 4-5.
   Delivery Contracts and Pricing
   Asset Pricing Super Problem
   Derivatives

VII. Financial Frictions and The Firm, HC chapter 8, lecture 6.
   Optimal Investment Decisions
   Modigliani-Miller Theorem
   Frictions and Capital Structure

VIII. Models of Money and Exchange Rates, HC 9-11, lectures 7-8
Velocity Model
Baumol-Tobin Model
Search Model
Exchange Rates
Interest Parity
Payment methods and moving away from Money
crypto currencies and cryptography

IX. Financial Intermediation, HC 12-13, lectures 9-10
Lending and Debt contracts
Banking
Deposit Insurance
Securitization

The last few topics are to be determined. They could include financial aspects of the Great Recession (HC 14) and the COVID recession. Or the interaction of government deficits and financial markets (HC 15-16). Or models of sovereign borrowing, default and debt crises (HC 17). These topics are both interesting and topical, however we cannot cover them all. So some sort of selection will be made.