

Professor Ricardo Bebczuk
University of Illinois at Urbana-Champaign

Year 2024
MSPE Program

ECON 516
Monetary Theory

M-W – 3:30PM-4:50PM
Room 215B DKH

Course Syllabus

Course Objectives:

This course seeks to highlight and discuss relevant policy lessons derived from asymmetric information models of financial intermediation. In this spirit, the course will explore firm- and household-level financing decisions and constraints in imperfect capital markets, as well as the pros and cons of various government interventions designed to mitigate such imperfections in normal and crisis times. The course has a clearly applied focus. After reviewing the underlying analytical framework, full attention will be paid to descriptive and econometric evidence from both developed and developing countries that will often defy common knowledge in the policy arena. In addition, current events will be used as a trigger for the application of concepts and/or data introduced in class.

Contact Information:

My office is located in David Kinley Hall, Room 208. My email (and preferred contact) is bebczuk@illinois.edu. I will respond to your emails promptly, and will be accessible to answer questions throughout the semester. My regular office hours are Mondays and Wednesdays from 5:00PM to 6:00PM, but you may set up appointments to meet with me, when possible, at other times.

Grades

The final score is the average of:

Midterm (10/16/2024, in class) – 40% of the final grade

Final (TBD) – 60% of the grade

The final score, on a 0-100 scale, will be converted into a letter grade as follows:

Numerical Grade	Letter Grade
90-100	A+
85-89	A
80-84	A-
75-79	B+
70-74	B
65-69	B-
60-64	C+
55-59	C
50-54	C-

Homeworks

The homeworks will review the material discussed in the first half of the course, and the main purpose is to help you prepare for the midterm and final exams. You will not have to turn them in, and you will receive a full answer key to check your own answers. Please feel free to contact me if you still have questions about them.

Course Materials

Class lectures, homeworks, reading materials and other announcements will be posted on the Canvas page.

Texts

Given the broad and policy-oriented scope of the course, there is no single required text for this class, but some suggested textbooks are:

Bebczuk Ricardo (2003), *Asymmetric Information in Financial Markets: Introduction and Applications*, Cambridge University Press. This book will be the primary reference for the better part of Units 1-4 and I will share a complete pdf file during the first week of class.

Hubbard Glenn (2008), *Money, the Financial System and the Economy*, 6th edition, Pearson, Addison Wesley Publishing.

Mishkin Frederic (2021), *The Economics of Money, Banking and Financial Markets*, 13th edition, Pearson, Addison Wesley Publishing.

Please notice that these textbooks do not cover all the topics nor follow necessarily the same approach of the course, but in some cases you will find them quite useful. If you are familiar with comparable standard textbooks by other authors, please feel free to use them.

Class lectures are required reading, in the same way that selected sections of the papers that will be cited at the bottom of some slides and included in your readings folder.

Needless to say, given the course approach, attendance and attention in class (plus participation through questions and comments) are critical for your grasping of the material and your performance on this course.

List of Topics

1. The foundations of the financial intermediation process: An analytical framework on asymmetric information in financial markets.
2. Financing structure and bancarization of firms and households. Access to credit in big and small firms.
3. Financial constraints and the supply and demand for credit. Implications for corporate investment, capital structure and dividend policies.
4. Bank policies to deal with asymmetric information: Collateral, downpayment, lending relationship. Microcredit and fintech. State programs.
5. The structure of the banking system. Balance sheet and income statements: Stylized composition. Concentration and competition. Ownership structure.
6. Bank regulation. Market discipline. Deposit insurance. Capital requirements. Liquidity requirements.
7. Institutions dealing with asymmetric information: Creditor legal rights and credit bureaus.
8. Financial development and economic growth. Credit and payment services. Causality.
9. Financial crises: Origins, consequences and resolution. Policy lessons from old and new events.