



UNIVERSITÀ  
CATTOLICA  
del Sacro Cuore

## Advanced microeconomics

PROF. ANGELO BAGLIONI

### Course aims and intended learning outcomes

The objective of this course is the microeconomic analysis of financial markets and institutions. The focus is primarily on the asymmetric information approach. Students will learn the analytical tools needed to solve problems with moral hazard and adverse selection. They will also apply such tools to the analysis of issues related to credit and insurance markets.

At the end of the course, the student will be able to answer theoretical questions and to solve exercises related to the Principal-agent model (with moral hazard and adverse selection) and its applications to insurance markets and banking (focusing on credit risk and liquidity risk).

### Course content

Contract theory

- The principal-agent model with moral hazard;
- The principal-agent model with adverse selection.

Applications:

Demand for insurance and insurance markets.

The lender-borrower relationship: risk-taking incentives.

Financial intermediation:

- credit rationing – the role of collateral;
- liquidity risk and regulation: lender of last resort, deposit insurance.

### Reading list

I. MACHO-STADLER-PÉREZ-CASTRILLO, An introduction to the economics of information, Oxford University Press, 2001 (second edition). Chapters: 1, 2, 3 (only 3.1-3.2-3.3-3A.3-3B.3), 4 (only 4.1-4.2-4.3-4B.1).

X. FREIXAS-J.C. ROCHET, Microeconomics of banking, MIT Press, 2008 (second edition). Chapters: 2 (only 2.1-2.2), 5, 7.

A. BAGLIONI: Slides available in blackboard.

### Teaching method

Lessons and exercises solved together with the teacher in classrooms.

The exposition of all topics is made with the support of slides, which are made available to students in Blackboard.

### Assessment method and criteria

Written examinations, testing the ability of students to solve simple exercises and to answer theoretical questions related to the topics of the course.



UNIVERSITÀ  
CATTOLICA  
del Sacro Cuore

## Notes and prerequisites

*Office hours:* Wednesday, starting at 2 p.m. (via Necchi 5, room 103).

Students are supposed to master the standard analytical tools learned in an undergraduate microeconomics course. The following topics are particularly relevant: the theory of individual choice under uncertainty (expected utility, risk aversion) and in a strategic context (Nash equilibrium); the theory of market structure under perfect competition and monopoly.