



UNIVERSITÀ
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del Sacro Cuore

Monetary economics and asset pricing

PROF. DOMENICO DELLI GATTI; PROF. MAURIZIO MOTOLESE

Course aims and intended learning outcomes

The main purpose of this course is to equip the students with analytical frameworks for understanding the fundamental features of

1. the monetary policy transmission mechanism in settings characterized by nominal rigidities, asymmetric information, uncertainty and liquidity shocks;
2. portfolio choice and asset pricing on financial markets and their role for macroeconomic fluctuations.

After completion of the course the student will be able to

- describe and solve advanced macroeconomic models used to evaluate the effects of monetary policy and the inner working and macroeconomic effects of financial markets;
- apply the acquired knowledge (i.e., use the solution procedures developed in class) for addressing additional issues, with particular reference to the causes and consequences of financial instability,
- develop an autonomous assessment of models and issues based on the conceptual tools discussed in class;
- expose and communicate opinions in a rigorous way using the conceptual/lexical toolkit used during the course;
- learn new frameworks and conceptual tools in the area of macro-finance.

Course content

MODULE I: Prof. Domenico Delli Gatti

1. The main channels of transmission of monetary policy: an overview.
2. Ex post asymmetric information, monitoring costs and the external finance premium: Bernanke-Gertler.
3. The credit view: the lending channel and the balance sheet channel.
4. Asset prices and borrowing constraints: Kiyotaki-Moore.
5. Optimal monetary policy in the New Keynesian Dynamic Stochastic General Equilibrium Model.
6. Bank runs and financial contagion.

MODULE II: Prof. Maurizio Motolese

1. The consumption-based asset pricing model: an overview.
2. General equilibrium Rational Expectations asset pricing models: some financial markets puzzles.
3. Beyond Rational Expectations: solutions to the puzzles?
4. Macro consequences of asset markets volatility.
5. Volatility and uncertainty shocks.
6. The term structure of interest rates: the yield curve and GDP growth.
7. Monetary policy and asset price volatility

Reading list

Module I

C.E. WALSH, Monetary Theory and Policy, MIT Press, Cambridge, Massachusetts, 2010, 3rd edition.

Module II

J.H. COCHRANE, Asset Pricing, (revised edition). Princeton University Press, Princeton, NJ and Oxford, UK, 2005.



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For each module, additional scientific papers and lecture notes will be distributed to supplement the reading list above.

Teaching method

The teaching is organized in lectures and possibly seminars on selected topics.

Assessment method and criteria

Students are required to take a written test during the exam session dates assigned to this course. The exam will be administered at one time for both modules and it consists of two essay questions, one per module. Parts of the questions might contain analytical or numerical exercises.

Notes and prerequisites

Additional information and further details will be given in class and posted on the instructors' web-pages and/or on Blackboard.

The course builds on the first year courses in Microeconomics and Macroeconomics.