



UNIVERSITÀ
CATTOLICA
del Sacro Cuore

Economics for finance

PROF. ANGELO BAGLIONI

Course aims and intended learning outcomes

The course is divided into two parts. The first part focuses on the microeconomic analysis of markets and financial intermediaries. The approach is based on asymmetric information. Students learn how to analytically handle problems related to moral hazard and adverse selection, and how to apply such tools to the analysis of credit and insurance markets. The second part of the course addresses monetary policy, with a special focus on the implementation of that policy in the European context.

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); the operational framework and the transmission channels of monetary policy. The student will also be able to answer questions focusing on the organization, strategy and operations of the European System of Central Banks.

Course content

PART I: *Contract theory and Applications*

1. Contract theory:
 - principal-agent problem with moral hazard;
 - principal-agent problem with adverse selection.
2. Applications:
 - Demand for insurance and insurance markets;
 - The lender-borrower relationship: risk-taking incentives;
 - Financial intermediation:
 - o credit risk and rationing – the role of collateral;
 - o liquidity risk, deposit insurance and lender of last resort.

PART II: *Monetary policy*

- The European System of Central Banks: organization and strategy
- The operational framework of monetary policy
- The monetary policy transmission channels
- The non-standard monetary policy measures and quantitative easing

Reading list

A. BAGLIONI, *Slides available in blackboard*, covering all topics (both parts I and II)

Part I.

- 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.

Part II

- A. BAGLIONI, *The operational framework of monetary policy*, 2015.
- F. MISHKIN, *Symposium on the monetary transmission mechanism*, Journal of Economic Perspectives, Fall 1995.
- B. BERNANKE-A. BLINDER, *Credit, money and aggregate demand*, American Economic Review, May 1988.



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A. BAGLIONI, *Bank capital regulation and monetary policy transmission*, A Klein-Monti approach, 2003.

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 focusing on the models studied during the course. The written examinations can also include questions related to both the theoretical and the institutional topics addressed in the course.

Notes and prerequisites

For the first part of the course, students are expected to be familiar with the standard analytical tools covered in the three-year microeconomics course. Particularly relevant are: the theory of individual choice under uncertainty (expected utility, risk aversion) and in a strategic context (Nash equilibrium); the theory of market structure under conditions of perfect competition and monopoly. For the second part of the course, students are expected to be familiar with the standard issues covered in the three-year course of macroeconomics. Particularly relevant are: the IS-LM and AD-AS models.

Office hours

Wednesday, starting at 2 p.m. (via Necchi 5, room 103)..