

The Hebrew University of Jerusalem

Syllabus

Financial and Economic Crises and Macroeconomic Analysis - 57253

Last update 07-09-2022

HU Credits: 4

Degree/Cycle: 1st degree (Bachelor)

Responsible Department: Economics

Academic year: 0

Semester: 1st Semester

Teaching Languages: Hebrew

Campus: Mt. Scopus

Course/Module Coordinator: Dr. Edward (Akiva) Offenbacher

Coordinator Email: Akiva.Offenbacher@mail.huji.ac.il

Coordinator Office Hours: TBD - near time of one of the lectures.

Teaching Staff:

Dr. Edward Offenbacher

Course/Module description:

The course expands on the required macroeconomics courses and will present, primarily, elements of the financial system and of analysis in finance that are included in macroeconomic analysis before and after the Global Financial Crisis (GFC) of 2007 to 2009, and also the economic crisis associated with the COVID pandemic; renewed inflation will also be analyzed. The course has four main topics: (a) Background – including institutional material on the financial system and some analytical material from finance theory as well as a description of the GFC and its causes; (b) extensions in macroeconomics mainly regarding analysis of monetary policy before and after the GFC, and updates regarding the COVID period, the recent renewal of inflation and on the development of digital currencies; (c) selected issues from finance theory without financial frictions, as they were included in macroeconomic analysis before the GFC, such as the effects of consumption smoothing with full information to all economic agents, expectations theories of the term structure and information on future inflation derived from financial markets, and the role of arbitrage; (d) selected issues from finance theory with financial frictions as applied in macroeconomic analysis such as costly state verification, asymmetric information between lenders and borrowers, models of default/bankruptcy leading to financial crises.

Course/Module aims:

Gain familiarity with crises as a macroeconomic phenomenon, mainly financial but not only. Learn the roles of the financial system in macroeconomic analysis and of the effects on macroeconomic analysis of key elements of finance theory; understanding the distinction between finance theory without financial frictions as included in macroeconomic analysis prior to the GFC but without providing an infrastructure capable of accounting for crisis situations and their implications, on the one hand, and approaches to finance including financial frictions on whose basis infrastructures in macroeconomic analysis are being built that do provide for the possibility of crises, on the other hand.

Learning outcomes - On successful completion of this module, students should be able to:

Students will learn how material taught in macroeconomics courses generally is applied to analyze practical issues, including the formulation of macro policy and of business plans; they will augment the concepts they learn in macro by adding some basic concepts from finance theory and by understanding the role of the financial system in macroeconomic analysis; they will have a sound basic understanding of the GFC, the macroeconomic effects of the Corona pandemic and the recent

inflation. The course will provide the students with an infrastructure to analyze macroeconomic developments in the real and financial sectors within a broader and more realistic framework than previously taught.

Attendance requirements(%):

Attendance not required; possibly there will be slight incentive for attendance via final grade.

Teaching arrangement and method of instruction: The course is based mainly on class lectures including detailed PPTs, readings and some pre-recorded video clips (details in Moodle, document entitled "Preliminary Announcement..." Hebrew only).

Course/Module Content:

- I. Background topics*
 - 1. Short intro on crises*
 - 2. The financial system – functions, products, markets, institutions; a few basic concepts in finance theory*
 - 3. The Global Financial Crisis: Causes and events*
 - 4. Topics in macroeconomic analysis:*
 - a) Monetary policy – the inflation targeting framework as management of expectations; update after GFC; extensions on rational expectations*
 - b) Practical macro vs. academic macro: use of models in formulating monetary policy – the Bank of Israel staff forecast*
 - c) Extension of discussion to the recent inflation; review of NKM from Macro Aleph;*
 - d) Digital currencies and the management of monetary policy*
- II. Macro-finance without financial frictions*
 - 1. The arbitrage concept and its role in finance theory: the Modigliani-Miller capital structure theorem*
 - 2. Term structure models – pure expectations theory and expectations theory with risk premium*
 - 3. Information on expected inflation derived from financial markets*
 - 4. Consumption smoothing and asset prices*
- III. Macro-finance with financial frictions*
 - 1. Basic concepts of financial frictions – costly state verification, asymmetric information, the lemons problem, principal-agent problems*
 - 2. Diamond – Dybvig model*
 - 3. The financial accelerator model*
 - 4. Credit rationing equilibrium as solution to lemons problem (Stiglitz-Weiss)*

Required Reading:

Examples of readings of all categories (details in Moodle):
These readings are chapters from books (mostly textbooks) or journal articles; the list is temporary and partial; attempt will be made to put readings on Moodle.
See Hebrew syllabus and Moodle for details. Nearly all readings are in English.

Additional Reading Material:

A small part of the reading material is required` most is not required. In order to give incentive to read material that is not required, the final exam will include an "insurance" question on a subset of readings (Mikud) Details in Moodle - Hebrew only, topic 0, file entitled "hoda'a makdima".

Course/Module evaluation:

End of year written/oral examination 76 %

Presentation 0 %

Participation in Tutorials 0 %

Project work 0 %

Assignments 0 %

Reports 0 %

Research project 0 %

Quizzes 24 %

Other 0 %

Additional information:

Course Pre-requisite

Passing grade in Macro aleph and third year BA standing in the economics department.