Content: In this course I will analyze the interplay between capital market imperfections, investment, business cycle fluctuations and growth. I am providing you with a quite extensive reading list, so that you can explore some issues in more depth. Not all the sub-topics will be covered in detail during the lectures, but you will be encouraged to investigate some of the issues on your own, with my guidance and help. We will discuss both theoretical and empirical contributions, the latter containing both macro and micro evidence. The course will also include a section on dynamic panel data estimation, with an empirical exercise (see end of reading list).

A set of lecture notes on the main topics can be found at my google personal website: https://sites.google.com/a/bc.edu/fabio-schiantarelli/teaching---graduate

Grading: Will be based on three referee reports on recent papers, a classroom presentation, and a replication exercise using panel data techniques.

A) CAPITAL MARKET IMPERFECTIONS, FINANCIAL STRUCTURE, INVESTMENT AND BUSINESS CYCLE FLUCTUATIONS

1) Corporate Finance Primer: from the State Preference Model to Asymmetric Information and Incomplete Contracts

a) The Modigliani-Miller Theorem and the Irrelevance of Financial Structure


* Ch. 7 in Sargent, T.J., Macroeconomic Theory, second edition.
b) Firms’ Financial Structure under Asymmetric Information and Incomplete Contracts


2) An Introduction to Intermediation and Banking


3) Capital Market Imperfections, Investment and Business Cycle Fluctuations: Models and Aggregate Implications


b) Bank Lending Channel: Early Evidence (mostly aggregate or semi-aggregate)


c) Financial Shocks, Financial Intermediation and the Macroeconomy

i) Models without Financial Intermediaries


ii) Models with Financial Intermediaries


http://www.ecb.int/events/conferences/html/mar_net.en.html

http://www.federalreserve.gov/events/conferences/2011/rsr/program.htm

http://www.ecb.int/events/conferences/html/mar_net.en.html

iii) More on Wedges


http://faculty.wcas.northwestern.edu/~lchrist/research/wedges/wedges1.pdf


d) Open economy


4) Credit Frictions and Investment: Micro Evidence

a) Early Critical Reviews


b) Excess Sensitivity Approach: Micro evidence from q Models


c) Micro Evidence from Euler Equations


d) Criticism on the Excess Sensitivity Approach


e) **Credit Frictions and Price Setting**


f) New Micro and Macro Evidence on the Credit and Lending Channel From the Financial and Sovereign Debt Crisis Period

i) US


ii) Europe


g) Local Evidence on the Lending Channel


h) Balance Sheet Effects of Currency Composition of Debt and Effects of Financial Constraints on Exports


B) FINANCIAL DEVELOPMENT, FINANCIAL STRUCTURE AND ECONOMIC GROWTH

1) Models and Overview


* Aghion, P. and P. Howitt (1999), Endogenous Growth Theory, MIT Press, ch.2


2) **Econometric Evidence**

a) Cross Section and Panel Evidence on Financial Development and Growth


b) Industry and Firm Level Evidence


c) Time Series Evidence on Financial Development and Growth


d) Country Financial Structure: Bank Based versus Market Based Financial Systems


e) Financial Development, Financial Reform, and Financing Constraints


Credit Constraints and Investment in Latin America. A. Galindo, F. Schiantarelli, editors, Inter-American Development Bank, September, 2003 (see the introductory chapter by Galindo and Schiantarelli and the papers on individual Latin American countries).

f) Financial Development and Convergence


g) Financial Liberalization, Financial Development and Efficiency in Resource Allocation


h) Financial Liberalization, Financial Development, Growth, and Volatility


i) Financial Liberalization, Bank Regulation and Financial Crises


j) Local Financial Development and Growth


http://fmwww.bc.edu/ec-p/wp753.pdf

C) ECONOMETRIC TOOLS FOR DYNAMIC PANELS


