

Professor Ricardo Bebczuk  
University of Illinois at Urbana-Champaign

Spring 2016  
MSPE Program

**ECON 516: Monetary Theory**  
**M-W – 1:30PM to 3:20PM – Room 123 DKH**

**Course Syllabus**

**Course Objectives:**

This course seeks to highlight and discuss relevant policy lessons derived from asymmetric information models of financial intermediation. In this spirit, the course will explore firm- and household-level financing decisions and constraints in imperfect capital markets, as well as the pros and cons of various government interventions designed to mitigate such imperfections in normal and crisis times. The course has a clearly applied focus. After reviewing the underlying analytical framework, full attention will be paid to descriptive and econometric evidence from both developed and developing countries that will often defy common knowledge in the policy arena. In addition, current events will be used as a trigger for the application of concepts and/or data introduced in class.

**Contact Information:**

My office is located in David Kinley Hall, Room 19 B. My email (and preferred contact) is [ricardo.bebczuk@gmail.com](mailto:ricardo.bebczuk@gmail.com) (with copy to [bebczuk@illinois.edu](mailto:bebczuk@illinois.edu)). I will respond to your emails promptly, and will be accessible to answer questions throughout the semester. My regular office hours are Monday from 10 to 11AM but you may set up appointments to meet with me, when possible, at other times.

**Grades**

Midterm – 35 %  
Final – 50%  
Homeworks – 15%

The final average score is the weighted average of all 3 items.

**Homeworks**

During the semester there will be 4 group homeworks (with groups of up to 3 students). These assignments will review the material discussed in class, and the main purpose is to help you prepare for the midterm and final exams. Assignments will be graded on an overall pass/fail basis.

## **Texts**

Given the broad and policy-oriented scope of the course, there is no required text for this class, but some suggested textbooks are:

Bebczuk Ricardo (2003), *Asymmetric Information in Financial Markets: Introduction and Applications*, Cambridge University Press.

Hubbard Glenn (2008), *Money, the Financial System and the Economy*, 6th edition, Pearson, Addison Wesley Publishing.

Mishkin Frederic (2009), *The Economics of Money, Banking and Financial Markets*, 9th edition, Pearson, Addison Wesley Publishing.

Please notice that these textbooks do not cover all the topics nor follow necessarily the same approach of the course, but in some cases you will find them quite useful. If you are familiar with comparable standard textbooks by other authors, please feel free to use them.

Class lectures are required reading, in the same way that selected sections of the papers in the readings folder (see below). These papers will be made available online, as explained next. Needless to say, given the course approach, attendance and attention in class (plus participation through questions and comments) are critical for your grasping of the material and your performance on this course.

## **Course Materials**

Class lectures, homeworks and other announcements will be e-mailed to your @illinois.edu accounts. Papers will be made available through a *Dropbox* link. You may want to download this program free of charge from *www.dropbox.com*.

## **List of Topics**

1. The foundations of the financial intermediation process: An analytical framework on asymmetric information in financial markets.
2. Financing structure and bancarization of firms and households. Access to credit in big and small firms.
3. Financial constraints and the supply and demand for credit. Implications for corporate investment, capital structure and dividend policies.
4. Bank policies to deal with credit risk: Collateral, downpayment, lending relationship. Leasing, factoring, microcredit.
5. The structure of the banking system. Balance sheet and income statements: Stylized composition. Concentration and competition. Ownership structure: State, foreign and private domestic banks.
6. Bank regulation. Market discipline. Deposit insurance. Capital requirements. Liquidity requirements.
7. Institutions dealing with asymmetric information: Creditor legal rights and credit bureaus.
8. Financial development and economic growth. Credit and payment services. Causality.
9. Financial crises: Origins, consequences and resolution. Policy lessons from old and new events.