EC862: Monetary Economics II  
Capital Market Imperfections, Financial Structure and Financial Development:  
Business Cycle and Growth Effects  

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Reading List  
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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 explore some of those topics, with my help. We will discuss 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).

Grading: Grading will be based on a final exam (40%). I will indicate during the lectures the subset of articles I expect everybody to read (the most important ones are starred); 60% of the grade depends upon two 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

* Walsh, C. E., Monetary Theory and Policy, (1998), MIT Press, Ch. 7


2) An Introduction to Intermediation and Banking


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

a) **Financial Frictions and the Financial Accelerator**


http://minneapolisfed.org/research/qr/qr2431.html


b) Bank Lending Channel


c) Financial Shocks and Financial Intermediation

(i) Models without Financial Intermediaries


(ii) Models with Financial Intermediaries


(iii) More on Wedges


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


Hall, R. E. (2009), ” The High Sensitivity of Economic Activity to Financial Frictions, Mimeo, Stanfor University,

d) Financing Constraints and Asset Markets


e) Open economy


4) Credit Frictions and Investment: Micro Evidence.

a) Critical Reviews


b) Excess Sensitivity Approach: Micro evidence from q Models


c) Micro Evidence from Euler Equations


d) Criticism and Further Evidence on the Excess Sensitivity Approach


e) Balance Sheet Effects of Currency Composition of Debt


1) Other


B) FINANCIAL DEVELOPMENT, FINANCIAL STRUCTURE AND ECONOMIC GROWTH

1) Models and Overview


http://www.st-andrews.ac.uk/economics/CDMA/papers/wp0507.pdf


October 1990, pp. 1076-1107.


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 Liberalization, and Growth, Efficiency, Volatility, and Saving


g) Financial Development, Convergence, Saving, Inflation and Growth


h) Local Financial Development and Growth


