**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 insurance 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 in credit and insurance markets. The second part of the course addresses monetary policy and its macroeconomic framework, 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: insurance markets and microeconomics of banking (focusing on credit risk and liquidity risk); the macroeconomic framework of monetary policy; the strategic approach to monetary policy; 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: Microeconomics of Insurance and banking

– Demand for insurance and insurance markets;

– The lender-borrower relationship: risk-taking incentives;

– Financial intermediation:

credit risk and rationing – the role of collateral;

liquidity risk, deposit insurance and lender of last resort.

Part II: Macroeconomics and Monetary Policy

* The macroeconomic framework of monetary policy: the IS-MP-AD-AS model
* The strategic approach to monetary policy: rules, discretion, and reputation
* The European System of Central Banks: organization and strategy
* The operational framework of monetary policy
* The transmission channels of monetary policy
* The non-standard monetary policy measures and quantitative easing

***READING LIST***

*Slides and reading material available in blackboard. ECB website:* [www.ecb.europa.eu](http://www.ecb.europa.eu)

***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).