# Monetary Economics (Money and Finance)

## Prof. Davide Arnaudo; Prof. Lorenzo Esposito

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course aims to provide students the analytical tools used to do an in-depth analysis of the conduct of monetary policy and the supervision of the financial system. The course consists in two modules. The first will examine the theoretical models used to analyse monetary policy and the fundamental features of the monetary policy transmission mechanism, also with reference to the role of asymmetric information and financial market imperfections. Furthermore, in light of the theoretical aspects addressed, the implementation of monetary policy by central banks will be analysed, focusing attention on the European Central Bank's action. The second module will focus on the motivations behind banking supervision and will illustrate the aims, tools and the institutional framework of both micro- and macroprudential supervision; in this context, the three "worlds" of supervision (structural, prudential and protective) will be addressed. The main innovations of the international financial scene will be analysed starting from 2008 crisis and the main innovations of today's financial landscape will be discussed (in particular: sustainable finance and fintech).

At the end of the course, students will know the basic principles behind the institutional set-up of the primary central banks, and be able to understand both the motivations underlying policy actions and the objectives pursued, developing their own independent judgments on the conduct of monetary policy. Furthermore, the models illustrated during the course will enable students to increase their learning skills and to deal independently with the most recent theoretical developments in the field of monetary economics. Finally, students will possess a technical language that will allow them to communicate their knowledge clearly and effectively.

***COURSE CONTENT***

Module 1: *Prof. Davide Arnaudo*

* Empirical evidence on the relations between money, inflation and product.

– The conduct of monetary policy, the debate on rules versus discretion and the independence of the central bank.

– The New Keynesian Dynamic Stochastic General Equilibrium Model and monetary policy.

* The term structure of interest rates and the transmission mechanisms of monetary policy.

– Asymmetric information and financial market imperfections.

* The monetary policy of the European Central Bank: conventional and unconventional monetary policy adopted from the international financial crisis to the pandemic crisis; the latest monetary policy interventions to address the new inflationary pressures.

Module II: *Prof. Lorenzo Esposito*

– Views on financialization, money and banks.

* Dynamics and efficiency of financial markets: expectations, rationality, and contagion; causes and development of banking and financial crises.
* The contribution of behavioral finance to the modern vision of markets.
* Risks (micro and macro) inherent in the banks’ business model.
* Banking and financial regulation: its reasons, objectives, and tools.
* the three worlds of supervision (structural, prudential and protective).
* Developments in supervision following the crisis (the return of systemic risk; Basel 3 and beyond, links with monetary policy).
* Developments in Europe: Banking Union and SSM
* Finance of the future: sustainable finance and fintech.

***READING LIST***

For module 1

F.C. Bagliano-G. Marotta, *Economia monetaria,* Il Mulino, 2010.

G. Di Giorgio, *Economia e politica monetaria,* Wolters Kluwer, 2016.

Precise indications on the sections of interest and further reading references will be provided during lectures. The supplementary teaching material will be made available on Blackboard.

For module 2

L. Esposito-G. Mastromatteo, *La vigilanza bancaria. Storia, teorie, prospettive*, Carocci Editore, 2021

Further reading references will be provided during lectures. The supplementary teaching material will be made available on Blackboard.

***TEACHING METHOD***

Lectures. The two modules will be taught sequentially, through classroom lectures.

***ASSESSMENT METHOD AND CRITERIA***

Written test. No oral exam is scheduled. The written test will consist of four open-ended questions: two regarding each module (to be chosen from three questions proposed for each module). No intra-year / interim tests are foreseen. There is one overall assessment which covers both modules making up the course.

***NOTES AND PREREQUISITES***

Regular class attendance is recommended since the examination will be based on topics covered in class, with the possible supplement of seminars conducted by experts invited to make presentations. To fully appreciate the course contents, a normal knowledge of general mathematics and macroeconomics is necessary.

Further information can be found on the lecturer's webpage at <http://docenti.unicatt.it/web/searchByName.do?language=ENG>, or on the Faculty notice board.