

Financial Policy and Regulation: Fostering Growth and Macroeconomic Stability.

ECON GU4913

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Fall 2023

Class meetings: Wednesdays 2:10-4:00pm

Office hours: Tuesdays 11:00-12:00am

Overview. Well-functioning financial markets can foster economic growth and contribute to improving living standards. However, finance can also be a destabilizing force at the origin of deep economic crises. In this seminar, we will investigate how finance can affect macroeconomic outcomes and explore the tools policymakers have to encourage the development of finance while limiting the risk of financial instability. We will also investigate how the influence of finance in politics can distort these policy choices. Within each topic, we will briefly discuss the theory to guide us through the exploration of empirical research. Seminar students are expected to actively participate in class discussions, present a research paper in class, and write a term paper on an agreed upon topic.

Pre-requisites. Economics 3412 (econometrics) or equivalent is a pre-requisite for this course. In addition, working knowledge of a data analysis software (such as Stata, R, or Python) is required.

Grading. The final grade will be based on:

- In-class participation (20%). You are expected to come to class, pay attention to lectures and presentations, and participate in discussions.
- Presentation of an existing paper (30%). Papers will be assigned during the first week of class.
- Research paper and work-in-progress presentation (50%). You will write a research paper that addresses a well-defined economics question. This paper is due at the end of finals week. Prior to that, you will give a presentation about your progress on your paper in the last few weeks of class.

Readings. The seminar has no textbook. Together we will cover a selection of articles at the frontier of the latest research in empirical macroeconomics and finance. You will be expected to have read the readings prefixed with an asterisk before the respective class meeting. The discussions in class will be much more meaningful if the required papers have been looked at in advance. All required readings will be available on Canvas.

Statement on Academic Dishonesty. As members of an academic community, each of us has a responsibility to participate in scholarly discourse and research in a manner characterized by intellectual honesty and scholarly integrity, and plagiarism is a very serious violation. While I encourage you to discuss the course readings and assignments with your classmates, all work that you turn in, both for assignments and on exams, must be your own. Any suspected case of plagiarism will be reported to the university, and students who breach their intellectual responsibility in this regard should anticipate being asked to leave Columbia.

Disabilities Accommodations. If you require special accommodations for disability-related reasons, please obtain an evaluation from the Office of Disability Services (212-854-2388 or disability@columbia.edu) and also speak to me about the issue as soon as possible.

Course outline

Papers with an asterisk (*) are required readings. Papers with a cross (†) will be presented by students.

Week 1. Introduction (*Sep 6*)

- (*) Levine, R. 2005. "Finance and Growth: Theory and Evidence." *Handbook of Economic Growth*, Volume 1, Part A, 2005, pp. 865-934. Sections 1 to 2.6.

Week 2. Finance & growth: macro-level evidence (*Sep 13*)

- (*) King, R., and Levine, R. 1993. "Finance and Growth: Schumpeter Might be Right." *Quarterly Journal of Economics*, 108(3), 717-737.
- (*) Rajan, R., and Zingales, L. 1998 "Financial Dependence and Growth." *American Economic Review* 88(3), pp. 559-586.
- Levine, R. 2005. "Finance and Growth: Theory and Evidence." *Handbook of Economic Growth*, Volume 1, Part A, 2005, pp. 865-934. Section 3.
- Papaioannou, E. 2007. "Finance and growth: a macroeconomic assessment of the evidence from a European angle." *ECB Working Paper*, No 787.

Week 3. Finance & growth: micro-level evidence on financing frictions and investment (Sep 20)

- (*) Fazzari, S. M., Hubbard, R. G., and Petersen, B. C. 1988. “Financing Constraints and Corporate Investment”. *Brookings Papers on Economic Activity*, 1988(1), 141-206.
- Rauh, J. 2006. “Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans.” *Journal of Finance* 61, 33-71.
- (*) Chaney, T, Sraer, D., and Thesmar, D. 2012. “The Collateral Channel: How Real Estate Shocks Affect Corporate Investment.” *American Economic Review*, 102 (6): 2381-2409.

Week 4. Students presentations (Sep 27)

- (†) Lian, C and, Ma, Y. 2021. “Anatomy of Corporate Borrowing Constraints.” *The Quarterly Journal of Economics*, 136(1): 229-291
- (†) Schmalz, M. Sraer, D., and Thesmar, D. 2017. “Housing Collateral and Entrepreneurship.” *The Journal of Finance*, 72: 99-132.
- (†) Kaboski, J., and Townsend, R. 2012. “The Impact of Credit on Village Economies.” *American Economic Journal: Applied Economics* 4, no. 2: 98-133.

Week 5. Finance and macroeconomic instability (Oct 4)

- Gilchrist, S., and Zakrajsek, E.. 2012. “Credit Spreads and Business Cycle Fluctuations.” *American Economic Review*, 102 (4): 1692-1720.
- (*) Schularick, M., and Taylor, A. 2012. “Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008”. *American Economic Review* 102 (2): 1029-1061
- (*) Jorda, O., Schularick, M., and Taylor, A. 2015. “Leveraged bubbles.” *Journal of Monetary Economics*, 76, pp S1-S20

Week 6. The role of financial intermediaries (Oct 11)

- (*) Dell’Ariccia, G., Detragiache, D., Rajan, R. 2008. “The real effect of banking crises.” *Journal of Financial Intermediation*, Volume 17, Issue 1, pp. 89-112.
- (*) Khwaja, A. I. and A. Mian. 2008. “Tracing the impact of bank liquidity shocks: Evidence from an emerging market.” *American Economic Review* 98 (4), 1413-42.
- Chodorow-Reich, G. 2014. “The employment effects of credit market disruptions: Firm-level evidence from the 2008-9 financial crisis.” *Quarterly Journal of Economics* 129 (1): 1-59.

- Cingano, F., F. Manaresi, and E. Sette. 2016. “Does credit crunch investment down? New evidence on the real effects of the bank-lending channel.” *The Review of Financial Studies* 29 (10): 2737-2773.

Week 7. Presentations by Students (Oct 18)

- (†) Hansen, M., and Ziebarth, N. 2017. “Credit Relationships and Business Bankruptcy during the Great Depression.” *American Economic Journal: Macroeconomics* 9, no. 2: 228-55.
- (†) Baron, M., Verner, E., and Xiong, W. 2023. “Banking crises without panics.” *Quarterly Journal of Economics*. Forthcoming.
- (†) Muller, K., and Verner, E. 2023. “Credit Allocation and Macroeconomic Fluctuations.” *The Review of Economic Studies*, forthcoming.

Week 8. Financial policy and regulation (Oct 25)

- (*) Fraisse, H., Lé, M., and Thesmar, D. 2020. “The real effects of bank capital requirements.” *Management Science*, 66(1), 5-23.
- (*) Lambert, C., Noth, F., and Schuwer, U. 2017. “How do insured deposits affect bank risk? Evidence from the 2008 Emergency Economic Stabilization Act.” *Journal of Financial Intermediation*, 29, 81-102.
- Lee, H., Lee, S., and Paluszynski, R. 2021. “Capital regulation and shadow finance. A quantitative analysis.” *The Review of Economic Studies*, conditionally accepted.

Week 9. Finance and politics (Nov 1)

- (*) Funke, M., Schularick, M. and Trebesch, C. 2016. “Going to extremes: Politics after financial crises, 1870-2014.”, *European Economic Review*, 88, pp. 227 - 260.
- (*) Mian, A., Sufi, A. and Trebbi, F. 2013. “The Political Economy of the Subprime Mortgage Credit Expansion.” *Quarterly Journal of Political Science*, Vol. 8: No. 4, pp 373-408.
- Muller, K. 2023. “Electoral Cycles in Macroprudential Regulation.” *American Economic Journal: Economic Policy*, Forthcoming.

Week 10. Students presentations (Nov 8)

- (†) Jorda, O., Richter, B., Schularick, M., and Taylor, A. 2021. “Bank Capital Redux: Solvency, Liquidity, and Crisis.” *The Review of Economic Studies*, Volume 88, Issue 1, pp. 260-286.

- (†) Schularick, M., ter Steege, L., and Ward, F. 2021. “Leaning against the Wind and Crisis Risk.” *American Economic Review: Insights* 3, no. 2: 199-214.
- (†) Girardi, D. 2020. “Partisan Shocks and Financial Markets: Evidence from Close National Elections.” *American Economic Journal: Applied Economics* 12, no. 4: 224-52.

Week 11. Students Presentation: Work-in-Progress (Nov 15)

Week 12. Students Presentation: Work-in-Progress (Nov 29)

Week 13. Students Presentation: Work-in-Progress (Dec 6)