

Financial Policy and Regulation: Fostering Growth and Macroeconomic Stability.

ECON GU4913

Noémie Pinardon-Touati

Fall 2024

Class meetings: Wednesdays 4:10-6:00pm

Office hours: Fridays 8:00-9:00am

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. ECON UN3211 (intermediate microeconomics), ECON UN3213 (intermediate macroeconomics), and ECON UN3412 (econometrics) or equivalent courses are 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 (20%). Papers will be assigned during the first week of class.
- Midterm (20%). The midterm exam will focus on testing your understanding of the economic concepts and the empirical methods that we will review in class. Exam is open-book. Calculators are allowed.
- Research paper and work-in-progress presentation (40%). 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.

Week 1. Introduction (*Sep 4*)

- (*) 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 11*)

- (*) 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 18)

- (*) 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.
- (*) 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.
- Rauh, J. 2006. “Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans.” *Journal of Finance* 61, 33-71.

Student presentation: Schmalz, M. Sraer, D., and Thesmar, D. 2017. “Housing Collateral and Entrepreneurship.” *The Journal of Finance*, 72: 99-132.

Week 4. Finance and macroeconomic instability (Sep 25)

- 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

Student presentation: Lian, C and, Ma, Y. 2021. “Anatomy of Corporate Borrowing Constraints.” *The Quarterly Journal of Economics*, 136(1): 229-291.

Week 5. The role of financial intermediaries (Oct 2)

- (*) 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.
- 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.

Student presentation: Correia, S., Luck, S., and Verner, E. 2024. “Failing banks.” Working paper.

Week 6. Developing your research question (Oct 9)

Student presentation: Chodorow-Reich, G. 2014. “The employment effects of credit market disruptions: Firm-level evidence from the 2008-9 financial crisis.” *Quarterly Journal of Economics*

Week 7. Financial policy and regulation (Oct 16)

- (*) Fraisse, H., Lé, M., and Thesmar, D. 2020. "The real effects of bank capital requirements." *Management Science*, 66(1), 5-23.
- Acharya, V. V., and Richardson, M. 2012. "Implications of the Dodd-Frank act". *Annual Review of Financial Economics*, 4(1), 1-38.
- Lee, H., Lee, S., and Paluszynski, R. 2021. "Capital regulation and shadow finance. A quantitative analysis." *The Review of Economic Studies*, conditionally accepted.

Student presentation: Rajan, R., & Ramcharan, R. 2015. "The anatomy of a credit crisis: The boom and bust in farm land prices in the United States in the 1920s." *American Economic Review*, 105(4), 1439-1477.

Student presentation: 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.

Week 8. Midterm (Oct 23)

Midterm (duration: 75min)

Student presentation: Bordo, M. D., and Duca, J. V. 2018. "The impact of the Dodd-Frank Act on small business". Working paper No. w24501. National Bureau of Economic Research.

Week 8. Financial policy and regulation (cont.) (Oct 30)

- (*) 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.
- (*) Limodio, Nicola, and Francesco Strobbe. 2023. "Liquidity requirements, bank deposits and financial development." *Economica* 90.357. 240-270.
- Anginer, D., Demirguc-Kunt, A., and Zhu, M. 2014. "How does deposit insurance affect bank risk? Evidence from the recent crisis". *Journal of Banking & finance*, 48, 312-321.

Week 10. Finance and politics (Nov 6)

- (*) 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., Sufo, 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.

Student presentation: 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 13)

Week 12. Students Presentation: Work-in-Progress (Nov 20)

Week 13. Students Presentation: Work-in-Progress (Dec 4)