



Course and Examination Fact Sheet: Spring Semester 2017

8,170: Monetary Policy and Financial Markets

ECTS credits: 2

Overview examination/s

(binding regulations see below)

Decentral - Written examination (100%, 60 mins.)

Attached courses

Timetable -- Language -- Lecturer

[8,170,1.00 Monetary Policy and Financial Markets](#) -- Englisch -- [Rinaldo Angelo](#)

Course information

Course prerequisites

The course assumes knowledge of basic macroeconomic principles from the bachelor Level. It is recommended to take the MBF compulsory course "Financial Markets" (7,150) before this course.

Course content

The main objective of this course is to learn how monetary policy interacts with financial markets.

The course is divided into two parts. In the first part, we study standard monetary policy, the mandates of different central Banks, and how monetary policy is implemented (transmission mechanism). We learn how monetary policy can be effective working through financial markets and why financial intermediation and financial markets are a key part in the transmission process.

The second part of the course focuses on unconventional measures taken by central banks in response to the recent financial crisis. We analyze how the crisis has changed central banking and the problems arising when interest rates reach the zero lower bound. We discuss how central banks try to alleviate financial disruptions that threaten the economy and which remedies have been put forward to restore well-functioning financial intermediation. Thus, we analyze several unconventional measures including the U.S. Federal Reserve's Quantitative Easing (QE) and the European Central Bank's Long Term Refinancing Operations (LTRO).

Finally, we take a more critical point of view and discuss the limits and drawbacks of unconventional policies including regulatory arbitrage and collateral scarcity.

Students who successfully complete this course will be able to understand the interdependence between monetary policy and financial markets and to comprehend the key challenges facing central banks and financial markets in the next years.



Course structure

0. Introduction

- What is inflation? Why do we care about it? Can we control it?

1. Mandates of central banks

- Goals and mandates of central banks
- Taylor rules
- Hierarchical vs. dual mandates
- Do central banks fulfill their mandates?
- Central bank's balance sheet

2. Monetary Policy Tools

- Transmission mechanisms
- Interest-rate channel
- Exchange-rate channel
- Credit channel
- Regulation-induced credit effects
- Conventional monetary policy tools
- Repo (guest lecture)

3. How crisis changed Central Banking

- Monetary policy response to the financial crisis
- Liquidity trap
- How has the crisis changed monetary policy?
- Financial stability

4. Zero lower bound

- Monetary policy at the zero lower bound
- What do we learn from Japan?

5. Unconventional measures

- Signaling channel
- Balance-sheet channel
- Quantitative Easing (QE): How does it work? What are the effects on asset Prices, long-term interest rates, and Inflation? Risks?
- What can we learn from special cases such as Switzerland, Denmark and Singapore?

6. Limits and drawbacks of unconventional monetary policy

- Central bank independence
- Incentive distortions and manipulated prices
- Creation of asset bubbles
- Raise significant risks for central banks and governments
- Unsolved issues

Course literature

Relevant literature will be announced in class. The slides will be the main teaching material.



Selected chapters will be taken from:

- Mishkin, F. (2013). *The Economics of Money, Banking, and Financial Markets*. Harlow: Pearson Education
- Romer, D. (2012). *Advanced macroeconomics*(4th ed.). New York: McGraw-Hill.

We will also refer to selected academic papers, including:

- Jordan, T., Rinaldo, A. & Söderlind, P. (2009). The implementation of SNB monetary policy. *Financial Markets and Portfolio Management*, 23(4). 349-359.
- Mancini, L., A. Rinaldo, J. Wrampelmeyer (2016): "The Euro Interbank Repo Market", *Review of Financial Studies*, 29 (7), 1747-1779.
- Rinaldo, A., E. Rossi (2010): "The Reaction of Financial Assets to Swiss National Bank Communication". *Journal of International Money & Finance* 29(3), 486–503.
- Rinaldo, A., P. Söderlind (2010): "Safe Haven Currencies". *Review of Finance* 14(3), 385–407.

Additional course information

This course is especially suitable for graduate students in finance and economics. However, participants of other master's programs are welcome.

Examination information

Examination sub part/s

1. Examination sub part (1/1)

Examination time and form

Decentral - Written examination (100%, 60 mins.)

Remark

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Examination-aid rule

Extended Closed Book

The use of aids is limited; any additional aids permitted are exhaustively listed under "Supplementary aids". Basically, the following is applicable:

- At such examinations, all the pocket calculators of the Texas Instruments TI-30 series and mono- or bilingual dictionaries



(no subject-specific dictionaries) without hand-written notes are admissible. Any other pocket calculator models and any electronic dictionaries are inadmissible.

- In addition, any type of communication, as well as any electronic devices that can be programmed and are capable of communication such as notebooks, tablets, PDAs, mobile telephones and others, are inadmissible.
- Students are themselves responsible for the procurement of examination aids.

Supplementary aids

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Examination languages

Question language: English

Answer language: English

Examination content

The students' examination is a closed-book written exam based on multiple-choice and open questions. The written exam will take place after the semester break.

Examination relevant literature

The compulsory literature for the exam is the teaching material used during the lectures, in particular the slides.

Selected chapters will be taken from the following textbooks:

- Mishkin, F. (2013). The Economics of Money, Banking, and Financial Markets. Harlow: Pearson Education
- Romer, D. (2012). Advanced macroeconomics(4th ed.). New York: McGraw-Hill.

Please note

We would like to point out to you that this fact sheet has absolute priority over other information such as StudyNet, faculty members' personal databases, information provided in lectures, etc.

When will the fact sheets become binding?

- Information about courses and examination time (central/decentral and grading form): from the start of the bidding process on 26 January 2017
- Information about decentral examinations (examination-aid rule, examination content, examination relevant literature): after the 4th semester week on 20 March 2017
- Information about central examinations (examination-aid rule, examination content, examination relevant literature): from the start of the enrolment period for the examinations on 10 April 2017

Please look at the fact sheet once more after these deadlines have expired.



University of St.Gallen