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Course Name: Macro-economy and Financial Stability
Semester: Spring, 2011/2012
Major: MSc in Economics
Instructor: Dimitar Bogov
Credits: 4 credit hours/ 8 ECTS
Contact hours: 24 hours
Learning hours: 96 hours
Class Hours: Thu, Fri 18-21, Sat 9-13
Prerequisite: Macroeconomics, Banking and Finance and International Finance, (undergraduate)

Required Text:

1. Agenor, P.R. Alper, K. And Perreira da Silva, L. (2011). Capital Regulation, Monetary Policy and Financial Stability; Centre for Growth and Business Cycles Research, University of Manchester.
2. Agenor, P.R. and Perreira da Silva, L. (2011). Macroeconomic Stability, Financial Stability, and Monetary Policy Rules; Fondation Pour Les Etudes et Recherches sur le Developpement International, Working Paper / P29
3. Borio, C. (2011). Rediscovering the Macroeconomic Roots of Financial Stability Policy: Journey. Challenges and the Way Forward; BIS Working Papers No 354..
4. Cecchetti, S. G. Disyata, P. and Kohler, M. (2009). Integrating Financial Stability: New Models for a New Challenge; Essay for the joint BIS-ECB Workshop "Monetary Policy and Financial Stability", September 2011.
5. Das, S.A. et all (2010). Managing Public Debt and its Financial Stability Implications; IMF Working Paper, WP/10/280.
6. Domanski, D. and Ng, T. (2010). Getting Effective Macroprudential policy on the Road: Eight Propositions; BIS Papers No 60.
7. Duca, M.L. and Peltonen, T. (2011). Macrofinancial Vulnerabilities and future Financial Stress: Assesing Systemic Risks and Predicting Systemic Events; BIS Papers No 60.
8. Galati, G. and Moessner, R. (2011). Macroprudential Policy – a Literature Review; BIS Working Papers No 337.
9. Kim, K. et all (2010). Monetary Policy Framework and Financial Proccyclicity; BIS Papers no 60.
10. Mendicino, C. and Punzi, M.T. (2011). Boom-bust Cycles and Stabilisation Policy – Monetary and Macroprudential Rules: a loss Function Approach; BIS Papers No 60.
11. Ryoo, S. C. and Hong, C. (2011) Countercyclical Tools: a Comparative Assessment; BIS Papers No 60.
12. Stone et all. (2011). Should Unconventional Balance Sheet Policies be Added to the Central Bank Toolkit? A Review of the Experience So Far; IMF Working Paper, WP/11/145.
13. Unsal, F.D. (2011). Capital Flows and Financial Stability: Monetary Policy and Macroprudential Responses; IMF Working Paper WP/11/189.

Additional reading:

1. IMF, (September 2011). Financial Stability Report, Chapter 3.
2. Obstfeld, M. et all. (2008). Financial Stability, the Trilemma, and International Reserves; NBER Working Paper Series, Working Paper 14217.
3. Schanz, J. et all (2011). The Long-Term Impact of Higher Capital Levels; BIS Papers No 60.

Course description:

The course investigates interrelations between macroeconomics and financial system. It starts with explaining the basic transmission channels between macroeconomic policies and financial markets and shows how the monetary policy could lead to financial cyclicity. Then it touches the links between sovereign debt crisis, capital flows and financial stability. Afterward it discusses how to identify build up of macro-financial vulnerabilities and future financial stress. Finally, it considers the power and limitations of macroprudential policies as a crisis mitigation tool.

Learning objectives:

1. Learn the interlinks between macroeconomic policies and financial stability
2. Learn how monetary policy could lead to financial pro-cyclicity
3. Learn how sovereign debt crisis could lead to financial crisis and vice versa
4. Learn the indicators of macro-financial vulnerabilities and potential systemic risks
5. Learn about the need of redesigning macroeconomic policies to mitigate systemic risks
6. Learn the ongoing discussions about the role of regulation and macroprudential policies in preventing systemic financial crisis

Learning outcomes:

By the end of this course it is expected that the student will be able to:

1. be aware about close interdependence and mutual impact of macroeconomic policies and financial system
2. understand the importance of the financial stability for the macroeconomic growth
3. understand the causes and consequences of sovereign debt crisis
4. be familiar with the indicators that could signal build up of macro-financial vulnerabilities
5. know the role of monetary and macroprudential policies in avoiding boom and bust cycles
6. be informed about the latest developments in banking regulation (Basel III) and practical use of macroprudential tools by Central Banks

Course delivery:

The instructor will deliver lectures to the students in six parts (days). Each part consists of two classes devoted to instructor's presentations and one class for discussion on related topic. The classes will be used to illustrate the theory with references to real life issues from the recent past. Suggested articles and policy papers will be discussed during classes in interactive discussion. Students will receive in advance all suggested papers and instructor's presentations.

Instructor's expectations from students:

Attendance on a regular basis is highly recommended as it affects positively the exam performance. Students are encouraged to read in advance the suggested articles and policy papers and actively participate in the class discussions. Critical thinking on the presented material is expected. Suggested articles and policy papers are to set a stage for discussion and by no means provide definitive answers on these burning issues of today's world economy.

Examinations structure:

1. *Exam* – 50%

Exam is closed-books and covers all the material discussed throughout the course. It will pose essay style questions requiring a combination of the theory taught and critical thinking.

2. *Assignments* – 40%

Students will be asked to prepare an essay-type assignment. Using the taught material and critical thinking they will be required to formulate policy responses to a vulnerable economy.

3. *Class participation* – 10%

The interest that a student shows in the class discussions will be evaluated. Your participation grade will be based on the quality of your contributions to class sessions. Absence from class discussions will deteriorate a student's final grade.

Day 1:

Introduction to the class

- Meeting with the lecturer
- Syllabus and literature

Macroeconomic stability and financial stability

- Conventional monetary policy framework for support of macroeconomic stability
- Conventional monetary policy framework for support of financial stability
- Macroeconomic stability balance sheet policies of the Central bank
- Financial stability balance sheet policies of the Central bank

Studying material:

IMF Working paper: Stone, Fujita and Ishi (2011)

BIS working paper: Borio (2011)

Day2:

Monetary policy and Financial Procyclicality

- Financial procyclicality and systemic risk
- Loose monetary policy
- Financial intermediaries behavior
- Global vulnerabilities as a source of financial instability
- Credit growth and asset prices

Studying material:

Kim et al (2010)

Duca and Peltonen (2011)

Day 3:

Integrating financial stability into macroeconomic models

- Economic stability
- Lessons from the crisis
- Linking the financial sector and the real economy
- What should monetary policy react to?

Studying material:

Agenor and Da Silva (2011)

Cecchetti et al (2009)

Mendicino and Punzi (2011)

Day 4:

Public debt and Financial stability implications

- Links between public debt management and financial stability
- Stock of public debt
- Debt structure and composition
- Investor base
- Debt capital market
- Institutional aspects
- Risk mitigation policies

Studying material:

Das et al (2010)

Day 5:

Monetary policy and Macroprudential measures

- Limitations of conventional monetary policy
- Redesign of Macroeconomic policies
- Regulatory and supervisory policies
- Countercyclical policy tools (capital, liabilities, assets)
- Basel III

Studying material:

Unsal, F.D. (2011)

Agenor et al (2011)

Ryoo and Hong (2011)

Day 6: Macroprudential policy

- Objectives
- Systemic risk diagnosis
- Instruments
- Policymaking
- Macroprudential mandate
- Centralized decision making
- Political support
- Possibility of crisis
- Communications with the public

Studying material:
Domanski and Ng (2010)
Galati and Moessner (2011)

Final exam

CPC Coverage in terms of hours

- 1) Functional area
 - A Marketing – 0 hour
 - B Business finance – 0 hours
 - C Accounting – 0 hours
 - D Management – 0 hours
- 2) The Business environment
 - A) Legal environment of Business – 1 hours
 - B) Economics – 10 hours
 - C) Business ethics – 1 hour
 - D) Global dimensions of Business – 8 hours
- 3) Technical skills
 - A) MIS/IT computing – 2 hour
 - B) Statistics/Quantitative techniques – 2 hours
- 4) Integrative areas
 - A) Business policy – 0 hours
 - B) Internship – 0 hours

Assessment:

Active participation and attendance-10%, Assignments-40% and Final Exam-50%.

Exams are closed books. Also, you use your own calculator and nothing else will be allowed.

Mobile phones are strictly not tolerated in the class for any use (including computations). Active participation is meant as the effort and the interest that a student shows in the class, including homework.

After each session students are expected to study all the relevant material, read all the associated exercises, prepare assignment for the next class (if given), identify the difficult points and pose their questions in the next session either directly to me or in the class.

Grading Criteria

Grading points	%	Quality
A	96-100	4.00
A-	90-95	3.67
B+	87-89	3.33
B	83-86	3.00
B-	80-82	2.67
C+	77-79	2.33
C	73-76	2.00
C-	70-72	1.67
D+	67-69	1.33
D	63-66	1.00
D-	60-62	0.67

Make-up tests are given in exceptional circumstances. Cheating and plagiarism in any form will result immediately in the grade F. I assign a grade of (incomplete) only when a student misses the Midterm or the Final exam due to a **College-excused absence**, and is unable to make up before final grades are due

to the Record's Office. Please, consider seriously that there will be no exceptions concerning the above policy.

Class Conduct: You are responsible for everything that is announced, presented or discussed in class. The way to avoid any misunderstanding associated with this course is to attend class. You are expected to attend class and I do keep attendance records. **The class starts promptly at the scheduled time.** I find late arrivals distracting, which cause a decline in the quality of my lecture.

Importantly, it is also disruptive to your colleagues. I accept students **only up to five minutes late for the first class in a day.** Please, refrain from talking during class, it is disruptive to your colleagues and the lecture. I expect the best behavior from all of you. This is what education is all about. If you have a question about the material, please don't hesitate to ask me; answering questions is part of my job. If you are lost or confused, your question may help clarify the topic. Please, consider that **the language of instruction is English, so all our conversation into the class must be in this language.**

Keep in mind the following:

C- or better is required to use a course either as a prerequisite or as a major requirement.

G.P.A. (Grade Point Average): is computed for each student using the quality points earned for each course taken. A G.P.A of at least 2.0 is required for transfer and to graduate from ACS.

I wish you an interesting and creative academic semester.

Academic Honesty

The American College Skopje has its personal integrity which is presumed to be sufficient assurance in academic matters one's work is performed honestly and without unauthorized assistance. Undergraduate students, by registration, acknowledge the jurisdiction of the Honour System.

Plagiarism and cheating are serious offences and may be punished by failure on the exam, paper or project; failure in the course; and/or expulsion from the faculty. Individuals are prohibited from selling or being paid for taking notes in any form (written, electronic, or otherwise) during this course to or by any person or commercial firm without the express written permission of the professor teaching this course.

Late Work:

Many reasons are given for late work (e.g., flat tires, printer problems, illness, oversleeping, etc.). No matter what the reason, the bottom line is that either (a) the work was completed and turned in when required or (b) the assignment was not completed and turned in when required.

As specified earlier, assignments are due in class at the beginning of class on the specified due date. There is NO PROVISION for late work on any assignment (i.e., late work is not accepted). I also strongly recommend having backup systems in place so that you can have all work completed on schedule. Having your work completed on schedule is a key to early success in your business career.

NOTE: Late submissions are not accepted. Partial credit will NOT be given for late work.

Approved by: Marjan Petreski

Date: 02/2012