

Curricular Unit

Monetary and Financial Economics

Responsible and overall teaching load

António Afonso

1 lecture group, 2h per week + 1 tutorial group, 2 hours per week.

Objectives

The course intends to familiarize the students with the financing mechanisms of the economy (markets and financial institutions), and discuss the concept of money and risk. It presents also the basic elements of financial economics, notably the selection of portfolio assets. The course covers also financial markets and financial instruments, such as bonds, stocks, derivatives, stock evaluation, and exchange rates. In addition, it also addresses the issues of financial intermediation, financial crisis, as well as information problems and financial regulation. Finally, the course studies the topics related with money demand, the supply of money, and monetary policy.

Program

1	Financial system
1.1	Financing flows in the economy
1.2	Financial markets
1.3	Financial intermediaries
1.4	Financial instruments
2	Money
2.1	Concepts of money
2.2	Functions of money
2.3	Payment systems
2.4	Measuring money
3	Risk
3.1	Actual value and future value
3.2	Financial risk
3.3	Types of risk
3.4	Strategies to reduce financial risk
4	Portfolio theory
4.1	Return and risk of a financial asset
4.2	Return and risk of a portfolio
4.3	Efficient frontier
4.4	Money as a financial asset – Tobin's separation theorem
5	Bond market and interest rates
5.1	Measures of interest rates
5.2	Determinants of assets' demand
5.3	Structure of interest rates
6	Stock market
6.1	The price of a stock
6.2	Efficient financial markets theory
7	Derivatives markets
7.1	Definitions
7.2	Forwards
7.3	Futures

7.4	Options
7.5	Swaps
8	Exchange rate market
8.1	Exchange rates
8.2	Long-term exchange rate determination
8.3	Short-term exchange rate determination
9	Financial intermediation economics
9.1	Functions of financial intermediaries
9.2	Transaction costs, asymmetric information
10	Banks and financial innovation
10.1	Banks
10.2	Financial innovation
11	Financial crisis
11.1	Types of financial crisis
11.2	The 2007-2009 financial crisis
12	Money demand
12.1	Quantitative theory of money
12.2	Keynesian theory of preference for liquidity
12.3	Neo-keynesian theories of money demand
12.4	Friedman and the new quantitative theory
13	Money supply
13.1	Determinants of money supply
13.2	Money supply in the euro area
13.3	Monetary aggregates and counterparties
14	Monetary policy
14.1	Objectives and instruments of monetary policy
14.2	Monetary policy transmission mechanisms
14.3	Single monetary policy

References

F. Mishkin (2010). *The Economics of Money, Banking and Financial Markets*, Pearson, 9^a ed.

Elton, J., Gruber, E., Brown, S., Goetzmann, W. (2009). *Modern Portfolio Theory and Investment Analysis*, 8th ed., Wiley & Sons, Inc.