Seminar in Finance: Aggregate Implications of Financial Contracting
Syllabus

This course studies the equilibrium implications of endogenous financial contracts. Static and dynamic models of economies with contracting frictions (e.g., imperfect information and limited enforceability) and optimally determined financial contracts are covered and the implications for both quantities and prices are considered. The course is thus at the intersection of corporate finance/contract theory and asset pricing/macroeconomics. Specific topics covered include the dynamics of agency costs, financial intermediation, liquidity, capital reallocation, collateral, default and non-exclusive contracts.


**Prerequisites.** This is a second year graduate course in financial economics. There are no specific prerequisites for this class, but a background in either Corporate Finance and Asset Pricing or Contract Theory (or Information Economics) and Macroeconomics is recommended. To prepare for this class you may want to review the equilibrium implications of complete market models in Ljungqvist and Sargent (2004), chapter 8 and 13.

**Requirements.** The class meets on Wednesdays from 3:15pm to 5pm and Thursdays from 1:30pm to 3:15pm in Andersen 430. Grades will be based on 3 problem sets (10% each), two referee reports (and in class discussion) (10% each) and a final exam (50%). The first referee report on the paper by Gomes, Yaron, and Zhang (2003) is due at the beginning of class on April 7th, 2005. You can choose to write your second referee report about any of the assigned readings marked [R]. Sign up by the beginning of class in week 2. Sign up is on a first come basis and at most two students can sign up for any one paper. You should be prepared to give a ten minute discussion of the paper you refereed when that paper is discussed in class. This reading list includes both assigned readings (marked [*]) as well as additional references.

**Course Web Page.** A web page with a preliminary class schedule and additional course information is available at [http://www.kellogg.nwu.edu/faculty/rampini/htm/fin520sp05.html](http://www.kellogg.nwu.edu/faculty/rampini/htm/fin520sp05.html).

1. **Dynamics of Agency Costs and Aggregate Activity**


2. Financial Frictions and Asset Prices


Ljungqvist and Sargent (2004), chapter 16 and 17. [∗]


3. Reallocation and Q


4. Financial Intermediation and Liquidity


5. Recursive Contracts


Ljungqvist and Sargent (2004), chapter 19 and 20. [*]


6. Markets and Contracts


