Econ 531b. Mathematical Economics II: Financial Crises and Collateral General Equilibrium

**Day / time:** Tuesday 4:00-6:15  
**Course Type:** Graduate  
**Course term:** Spring  
**Year:** 2019  
**Visiting Instructor(s):** E. Davila, N. Werquin  
**Location:** Rm. 108

This is an advanced macro/finance graduate course devoted to the study of recent developments in general equilibrium models with incomplete markets and collateral. We will study how leverage and default levels can be endogenously determined in equilibrium. We will also study the effect of collateral on asset prices and show how deviations from the Law of One Price and the Efficient Markets Hypothesis can arise due to the need for collateral to secure promises. Collateral also affects real allocations and allocational efficiency. We will focus on distortions that the need for collateral creates on investment. We will cover the theory of the leverage cycle and we will show how when multiple leverage cycles are considered, we can explain cross-market properties such as flight to collateral and contagion. Moreover, we will also show how these models can be used to study financial innovations more generally such as securitization, tranching and credit default swaps. We will see how these models can be used to study financial crises and to understand many features that we observe in international financial markets such as gross flows and volatility. Finally we will also study experimental evidence on some of the most important theoretical results covered during the semester.

**Semester offered:** Spring

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