

**University College London
Department of Economics**

Economics of Financial Markets (ECON0001)

Course objectives

The aim of the course is to provide students with a thorough understanding of core concepts and methods of financial economics. In particular, the course will cover important topics such as the role of markets and institutions as providers of liquidity, the reasons for asset price volatility, financial fragility, and market microstructure.

Note that this is a course in the economics of financial markets and NOT an MBA type of course. We will study financial markets using the methods of economic theory. Some lectures may be more descriptive, but for most of the course we will use economic models to understand the functioning of markets.

Course structure

The course is divided in two parts. During the first part, which runs from week 1 to week 5, we will cover the following topics

Time, uncertainty and liquidity
Financial assets
Efficiency and fragility of financial markets
Intermediation and financial markets
Bank runs

During the second part of the course, which runs from week 6 to week 10, we will cover the following topics:

1. Trading institutions
2. Measures of market liquidity
3. Models of liquidity determination
 - a. Glosten and Milgrom
 - b. Kyle
4. Estimating the determinants of market illiquidity

Course Organization

Each week, we will have a live session or face to face once a week for 2 hours. In addition, there will be asynchronous materials (e.g., pre-recorded lectures, reading materials, and problem sets) in Moodle.

We will give you weekly problem sets. Solving exercises is an important part of your learning process. I prefer that you solve the problem sets in groups of at most five people

(hand in just one answer sheet with the five names). Solving exercises together, you will learn from each other and not only from me. Problem sets will be discussed during tutorial classes.

All information about the course, notes, problem sets, solutions, etc. will be posted in Moodle.

Textbook

There are two different textbooks for the two parts of the course:

For the first part, the main reference is:

Allen F. and Gale D., *Understanding Financial Crises*, Oxford University Press, 2007

For the second part, instead the reference is:

Foucault T, Pagano, M. and Röell, A. *Market Liquidity*, Oxford University Press, 2013.

I will indicate further readings during the course.