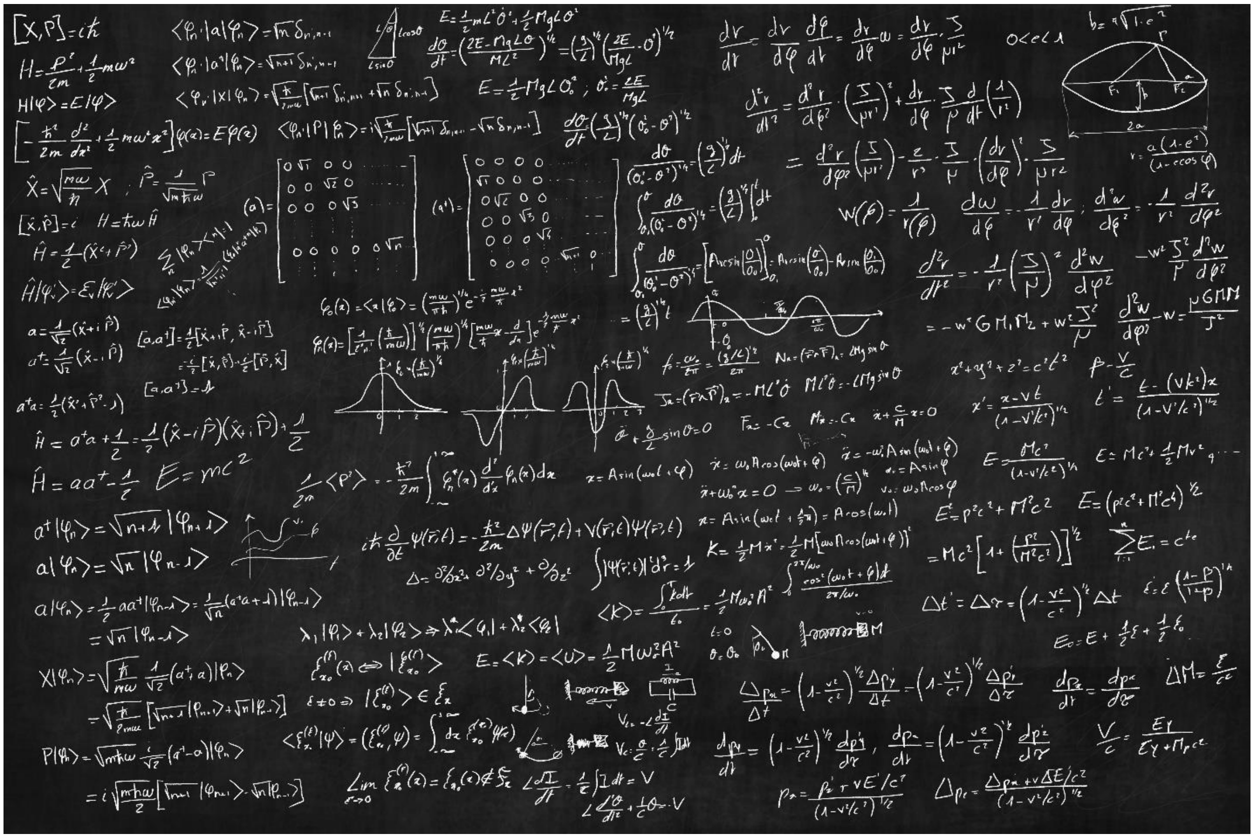

Economics and Finance

About Economics and Finance
The specialisation Economics and Finance introduces the student to the theories, principles, and methods of financial management at the firm, national and international level. The course investigates how financial markets work (in interaction with the real economy), why they often do not work as well as we would like, and how the performance of the financial system can be improved by regulation and policy. The specialisation consists of three courses: (i) Intermediate Economics; (ii) Cost-Benefit Analysis: Theory and Applications; and (iii) Economics and Finance.

Job Specialisation
Prepares students for careers in: (financial and management) consultancy, the financial sector and/or government departments and regulatory institutions dealing with large (infrastructural) projects or financial markets.

Detailed description
<u>TPM022a Intermediate Economics (5 ECTS, X/0/0/0)</u>
This course introduces students to the basic theories and models underlying macroeconomic policymaking including New-Classical and New-Keynesian economics and Keynesian economics. Special attention will be given to central bank policy, based on NAIRU economics. We will look into causes and consequences of the rapid growth of the financial sector ("financialisation") in the U.S. and Europe. Special attention will be given to the causes and consequences of the Global Financial Crisis of 2008 and its aftermath. Using this theoretical understanding we turn to an analysis of the origins of the Eurozone crisis and an evaluation of the costs and benefits of expansionary fiscal consolidation (or austerity economics). What role did the financial sector play in the Eurozone crisis? Why did Germany manage to recover from the financial crisis so quickly? Why did the crisis hit the Eurozone periphery (Greece, Italy, Portugal and Spain) so hard? How can growth in Europe be restored? To understand the role of finance in all this, we need to understand what money is, what it does and where it comes from. Therefore, the course concludes with a thorough analysis of the money creation process, and the roles played by the central bank, the state and the commercial banks in this process.

TPM023a Cost-Benefit Analysis: Theory and Application (4 ECTS, X/0/0/0)
Cost-benefit analysis (CBA) has become a widely used (often mandatory) tool for publicpolicy decision making regarding, for instance, infrastructural projects and environmental and climate stabilization policies. Through CBA, the potential current and future gains and losses of a proposed policy are identified, and then converted into monetary units in order to make them comparable with policy alternatives; certain decision rules help to determine whether the project is desirable from society's standpoint. Because CBA evaluates policy and/or project proposals from the point of view of public interest, the market prices used in CBA are corrected for possible market distortions or failure (for example, un-priced environmental damage). Nevertheless, the application of CBA is fraught with difficulties. How do we determine the present and future costs and benefits of a policy proposal? Why and how do the private benefits and costs of a policy proposal differ from the social benefits and costs? How can we express material effects (e.g., environmental damage), or human health and life risks, in terms of monetary units? How can we adjust market prices to account for 'external effects'? How do we measure social welfare? How can we use alternative measures of welfare to identify the benefits and costs of a policy proposal? How to convert future values into present values; how to determine the appropriate social discount rate and why is this discount rate all important to the outcome of CBA? Such questions are addressed with the help of a variety of recent international case studies, including climate stabilization policy and large infrastructure projects (e.g., the Channel Tunnel between France and England).

TPM021a Economics & Finance (6 ECTS, 0/X/0/0)
The two decades preceding the recent global financial and economic crisis saw an exceptionally strong growth of (global) financial markets, including a large (unregulated) shadow banking system While the stock of global financial assets increased manifold, steeply raising the ratio of financial assets to world output, household and private corporate debt also showed unprecedented increases. The profitability of financial-sector firms (banks, investment firms) increased to a multiple of that of firms producing goods and services. What does this process of "financialisation" mean for the economy? What is the shadow-banking system and which purposes does it serve? Are high rates of financial return (for shareholders) conducive to economic growth and technological progress? Does the short-run (profit) orientation of shareholders square with the longer-term strategic interests of firms? What are the economic consequences of firms' increased reliance on stock market finance and volatile global financial markets? What is securitization? What are derivatives markets and how do they work? The recent economic crisis raises important questions concerning the principles on which our financial system is founded. From various sides proposals have been made for a restructuring of our financial system to reduce its instability. Is financial market regulation desirable? Which principles govern the origination and destination of financial capital in our current financial-economic setting? Are other principles of financial-economic organization available? These are the central questions addressed in this course.

Method of Assessment
Lectures and assignments.

Contact
In case of questions, please contact the coordinator S.T.H. Storm (C2.160, 015 2783548, S.T.H.Storm@tudelft.nl).