

# Economics and Finance

## Coordinator contact information

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## Description

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 perspectives

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.

## Courses

### **TPM022a Intermediate Economics (5 ECTS, X/0/0/0) Language:**

English.

**Expected prior knowledge:** an introduction to Economics (e.g. MOT1421, EPA1223).

**Course managers:** Dr. Servaas Storm & Dr. C.W.M. Naastepad

**Summary:** 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.

**Course contents:** NAIRU; money creation; central bank behaviour; lender-of-last-resort; fiscal and monetary policy; austerity; output gap; unemployment; regulation; labour market regulation; stabilization policy; financial markets; financialisation; global financial imbalances; Eurozone crisis; competitiveness; relative unit labour cost; liberal market economies; co-ordinated market economies;

secular stagnation.

**Study goals:** At the end of this course, students will:

- understand how money is created and what this means for central bank policy.
- be able to appraise crucial differences between the main economic theories and what these mean for macroeconomic policy-making.
- be capable of diagnosing the origins of the Global Financial Crisis of 2008 and of evaluating policy responses to this crisis.
- have a keen understanding of the origins of the Eurozone crisis, as well as of how difficult it is to resolve this crisis.
- be able to identify key determinants of (technological) competitiveness.

**Education method:** Lectures and weekly exercise sets

**Literature and study materials:** to be announced.

**Assessment:** a closed book examination.

**TPM023a Cost-Benefit Analysis: Theory and Application (4 ECTS, X/0/0/0)** Language: English.

**Expected prior knowledge:** the course "Intermediate Economics".

**Course manager(s):** dr. Z. Kwee and dr. N. Mouter

**Summary:** Cost-benefit analysis (CBA) has become a widely used (often mandatory) tool for public policy 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).

**Course contents:** welfare economics; market failure; social costs and benefits; the social discount rate; valuation of non-market impacts; global warming; infrastructure investments.

**Study goals:** At the end of this course, students will:

- be able to perform a (social) cost-benefit analysis of a public policy proposal
- understand the welfare-economics foundations of CBA
- have a keen understanding of the importance of income distribution in CBA
- master techniques to value (in money terms) non-market impacts of public policy
- be able to correctly interpret the stalemate on policies to fight global warming.

**Education method:** Lecture and practical assignments

**Literature and study materials:** to be announced.

**Assessment:** (1) an open-question, closed book examination; and (2) assignments.

**TPM021a Economics & Finance (6 ECTS, 0/X/0/0) Language:**

English.

**Expected prior knowledge:** the courses "Intermediate Economics" and "Cost-Benefit Analysis: Theory and Applications".

**Course manager(s):** dr. C.W.M. Naastepad, dr. S. Storm

**Summary:** 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.

**Course contents:** financialisation and shareholder value maximization; asset markets; private and public debts; liquidity and the liquidity trap; credit risk transfer instruments (securitization and structured finance); derivatives markets; options; interest rate swaps; credit default swaps; mortgage-backed securities (including cdo's); asset price inflation; debt deflation; the global financial crisis; the crisis in the European Union; debt crisis; crisis economics; monetary financing; the future of finance; financial regulation.

**Study goals:** At the end of this course, students will be able to:

- analyse and interpret developments in financial markets from the point of view of financial investors, firms, consumers, governments and (central) banks
- understand the structural causes of the recent financial crisis including its persistence and evolution into secular stagnation
- interpret and assess proposals to arrest the spread of the crisis
- contribute to discussions about a new financial architecture that will bring transparency and stability to the financial-economic system and its composing elements.

**Education method:** Lectures and assignments.

**Literature and study materials:** to be announced.

**Assessment:** (1) an open-question, closed book examination; and (2) assignment (writing a critical book review).

[Link video](#)

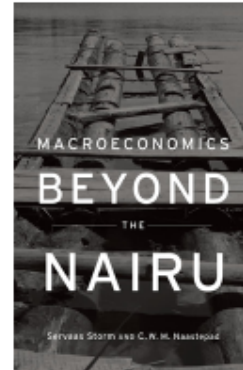


## TPM022A: Intermediate Economics

### Dr. Servaas Storm & Dr. C.W.M. Naastepad

This course introduces students to the basic theories and models underlying today's macroeconomic policymaking:

- Understanding the Eurozone Crisis, the Financial Crisis of 2008 and the COVID19 crisis of 2020-21
- Economic Theory: New-Classical, New-Keynesian and Keynesian Models
- Monetary policy & fiscal policy & more
- What do central banks do?
- Secular stagnation, inequality, productivity



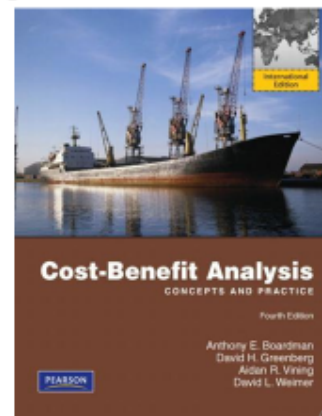
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## TPM023A: Cost-Benefit Analysis (CBA)

### Dr. Zenlin Kwee & Dr. N. Mouter

Students learn why and how CBA can be used to appraise the social benefits and costs of projects with an objective to improve social welfare and gain an understanding of the fundamentals of CBA and of its strengths and limitations

- **Purpose:** to help effective social decision making through efficient allocation of society's resources
- **Users:** governments, policy makers, businesses
- **Contents:**
  - How to use CBA for measuring efficiency & for decision making
  - Measuring changes in social welfare
  - Types of CBA analyses and their purposes
  - Valuing benefits and costs in primary, secondary markets and discounting them in future time periods
  - Many practical examples including a CBA of the 2008 Beijing Olympic games and CBA of climate policy



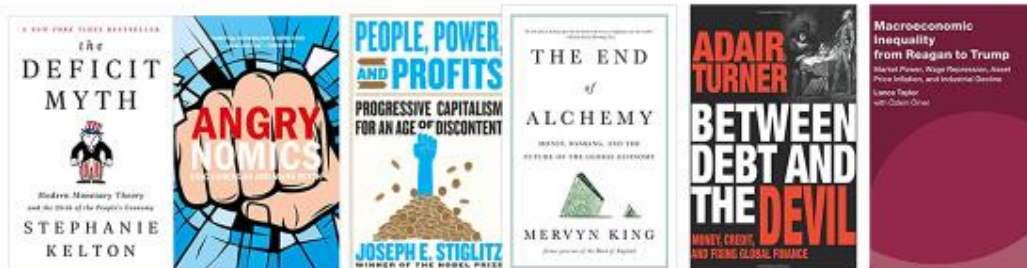




# TPM021A: Economics & Finance

## Dr. C.W.M. Naastepad & Dr. Servaas Storm

Group project: writing a critical review essay of a book of choice:



and more .....

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## Specialisation Economics & Finance: FAQs

1. Do I need prior economic/financial knowledge for the specialisation? No.
2. Is the specialisation technical/mathematical? No. The specialisation offers a critical analysis of economics, economic policy and the (role of the) financial system. It is policy-oriented and requires "systems-thinking". The course is also very up-to-date !!
3. Is the specialisation "very" theoretical? No. You will learn a lot about the real world of macro-economic policymaking, recent economic history (e.g. the financial crisis) and "tools" and "instruments" including cost-benefit analysis, macro-modelling, and financial instruments (swaps & options). The specialisation will help you to much better the "world" – the economic news, economic policy discussions, business decisions, and political debates.
4. What do the students do after the specialisation and obtaining their MSc? Our students went to work in consultancy (BCG; PWC; Ecorys; CopperB; Navigant; etc.), government (different ministries), universities (doing a PhD), PBL Planbureau voor de Leefomgeving, finance (banks), business (KLM; Heineken; Vodafone; Fiat; etc.), the European Commission, start-up firms, etc. There is no clear pattern – but all students told us that the specialisation has given them the necessary knowledge and instruments to productively work on economic issues in the real world.
5. Are there many assignment, projects, deadlines in the courses of the specialisation? No. Most courses are self-paced and provide question and exercise sets but no compulsory assignments (with deadlines). In TPM021A (Economics and Finance) you have to do a group project (with 3-4 others), reading and critically reviewing a recent macroeconomics book. Most students like this book review project a lot 😊
6. I am interested in getting rich by financial investing. Is this specialisation interesting for me? No. We are interested in critically thinking about what finance does and what it should do – to make the world a better place for everyone. "Money is numbers and numbers never end. If it takes money to be happy, your search for happiness will never end." – Bob Marley.

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