

Euro Area Business Cycle Network Training School

Financial Intermediation and Monetary Policy

by

Itamar Drechsler (Penn), Alexi Savov (NYU) and Philipp Schnabl (NYU)

Online via Zoom

4-7 April 2022

Deadline: 6pm (UK time), Sunday 20 March 2022

General description

We are pleased to announce details of the latest EABCN Training School; a four-day course entitled “**Financial Intermediation and Monetary Policy**”. Professors Itamar Drechsler, Alexi Savov and Philipp Schabl will teach the course. It is primarily aimed at participants in the Euro Area Business Cycle Network but applications will also be considered from doctoral students, post-doctoral researchers and economists working in central banks and government institutions outside of the network, as well as commercial organisations (fees are applicable for non-network non-academic organisations).

Course Outline*

This class will explore the role of financial intermediaries in the transmission of monetary policy. The central topics are how monetary policy affects bank lending, the supply of liquidity, risk premia, and inflation through its interaction with the financial system. We will cover both theory and empirics, emphasizing the most recent contributions to the literature as well as our own work. Above all, this is a very active area of research, and we hope our discussions will stimulate the next wave of new ideas.

**Please note a list of background reading for each day is supplied at the end of this document.*

Day 1: Monetary models and financial intermediation

This session will provide a short overview of canonical monetary policy models. The overview emphasizes what is missing from these models when matching them to data. We will highlight areas with open research questions and provide a summary of the current research frontier. We will then introduce the “deposits channel” as a framework to address some of the open questions and to explain the empirical evidence. The framework emphasizes the central role of financial intermediaries for monetary policy transmission.

Day 2: Monetary policy, bank deposits, and corporate lending

This session will examine the role of banks in the provision of long-term lending and how their lending changes with monetary policy. We will start with a discussion of *why* banks engage in maturity transformation, i.e., why they finance themselves with short-term deposits

and also make long-term loans. We then examine how maturity transformation affects banks' interest rate risk exposure and their lending to firms as monetary policy changes.

Day 3: Monetary policy, liquidity premia, and risk premia

This session will discuss how financial intermediaries create and allocate liquidity in the financial system. We will explore the role of monetary policy in affecting the supply of liquidity and its price (the liquidity premium). We will also examine how monetary policy affects risk premia through its effect on liquidity premia. This discussion will provide a framework to discuss empirical work on the role of monetary policy on risk premia, risk taking, and reaching for yield.

Day 4: Inflation and financial intermediation

This session will discuss recent work on models of inflation. We will introduce a model of inflation that puts a central emphasis on financial intermediaries and present empirical evidence on the effect of financial repression on inflation. We will contrast this work with existing models of inflation. This session will emphasize open research questions on the link between financial intermediation and inflation.

Administrative Information:

The course will take place online from **4 – 7th April**. The sessions will begin and end at the same time each day - **1400 – 1800 BST (UK Time)** (0900 - 1300 EST / 1500 - 1900 CEST). More information will be circulated to successful applicants closer to the date.

We ask that you send a **current** version of your CV. PhD students **must** also specify in which way the school will be useful for their current research (**max** 300 words).

Participants from **non-academic institutions** where the employer is **not** a member of the EABCN network are charged a course fee of **EUR1000**. We reserve the right to deny access to the course if payment has not been completed in due time.

How to apply:

Candidates who are CEPR affiliated or already have a CEPR profile should apply by submitting their CV online:

- 1) Log in on the CEPR portal online at <https://portal.cepr.org/>
- 2) Go to <https://portal.cepr.org/meetings/1508/info>
- 3) If you are a member of the MEF programme area, click on "Change registration details", complete the requested information and click "Submit information".
- 4) If you have a CEPR profile, click on "Step 1: Apply" and complete the requested information and click "Register"

Candidates who are not CEPR affiliated or do not have a CEPR profile should apply by submitting their CV online:

- 1) Create an online profile [here](#)
- 2) Log in on the CEPR portal online at <https://portal.cepr.org/>
- 3) Go to <https://portal.cepr.org/meetings/1508/info>
- 4) Click on "Step 1: Apply" and complete the requested information and click "Register"

If you have any difficulty in applying please contact, Lydia Williams, CEPR Events Officer at lwilliams@cepr.org for assistance, with the subject line '1508 EABCN Training School - Financial Intermediation and Monetary Policy'.

The application deadline is 6pm (UK time), Sunday 20 March 2022.

About the Instructors:

Itamar Drechsler is the Ervin Miller-Arthur M. Freedman Professor of Finance at the Wharton School and the co-director of Wharton's Rodney L. White Center for Financial Research. He works in the areas of asset pricing, financial intermediation, and monetary policy. He is currently an associate editor of the *Journal of Finance* and the *Journal of Political Economy* and a research associate of the National Bureau of Economic Research. He graduated with a PhD in finance from the Wharton School and has an MA in mathematics and bachelor's degrees in finance, mathematics, and computer science from the University of Pennsylvania. Prior to returning to Wharton, he worked for nine years in the finance department at NYU's Stern School of Business.

Alexi Savov is an Associate Professor of Finance and the Bank and Financial Analysts Faculty Fellow at New York University's Stern School of Business. Professor Savov's research is in the areas of financial intermediation, macro finance, and asset pricing. His current work focuses on the transmission of monetary policy through the financial system. He is currently an Associate Editor of the *Journal of Finance*, a board member of the Macro Finance Society, and a research associate at the National Bureau of Economics Research. Professor Savov received his B.A. in Mathematics and Economics from Washington University in St. Louis and his M.B.A and Ph.D. in Finance from the University of Chicago Booth School of Business.

Philipp Schnabl is the Martin J. Gruber Professor in Asset Management and Professor of Finance at the New York University Stern School of Business, as well as the Sidney Homer Director of the Salomon Center for the Study of Financial Institutions. His work studies financial intermediation, monetary policy, and corporate finance. His work has been published in leading academic journals including the *Quarterly Journal of Economics*, the *Review of Economic Studies*, the *Journal of Finance*, the *Journal of Financial Economics*, and the *Review of Financial Studies*. He is a Co-Editor at the *Journal of Financial Economics*. Professor Schnabl earned his Ph.D. from Harvard University, his M.P.A. from the Harvard Kennedy School and his B.A. and M.A. from the Vienna University of Economics and Business Administration.

Background Reading:

Day 1: Monetary models and financial intermediation

- (R) Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[The deposits channel of monetary policy](#)." *The Quarterly Journal of Economics* 132.4 (2017): 1819-1876.
- Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[Liquidity, risk premia, and the financial transmission of monetary policy](#)." *Annual Review of Financial Economics* 10 (2018): 309-328.

- Kashyap, Anil K., and Jeremy C. Stein. "[What do a million observations on banks say about the transmission of monetary policy?](#)" American Economic Review 90.3 (2000): 407-428.
- Kashyap, Anil K., and Jeremy C. Stein. "[Monetary policy and bank lending.](#)" Monetary policy. The University of Chicago Press, 1994. 221-261.
- Bernanke B, Gertler M. "[Agency Costs, Net Worth, and Business Fluctuations.](#)" The American Economic Review. 1989 Mar;79(1):14-31.
- Bernanke BS, Gertler M. "[Inside the black box: the credit channel of monetary policy transmission.](#)" Journal of Economic perspectives. 1995 Dec;9(4):27-48.
- Wang, Yifei, Toni M. Whited, Yufeng Wu, and Kairong Xiao. Bank market power and monetary policy transmission: Evidence from a structural estimation. Journal of Finance, forthcoming.

Day 2: Monetary policy, bank deposits, and corporate lending

- Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[Banking on deposits: Maturity transformation without interest rate risk.](#)" The Journal of Finance, 76(3), June 2021, 1091-1143
- Kashyap, Anil K., Raghuram Rajan, and Jeremy C. Stein. "[Banks as liquidity providers: An explanation for the coexistence of lending and deposit-taking.](#)" The Journal of Finance 57.1 (2002): 33-73
- Gatev, Evan, and Philip E. Strahan. "[Banks' advantage in hedging liquidity risk: Theory and evidence from the commercial paper market.](#)" The Journal of Finance 61.2 (2006): 867-892.
- Li, Lei, Philip E. Strahan, and Song Zhang. "[Banks as lenders of first resort: Evidence from the COVID-19 crisis.](#)" The Review of Corporate Finance Studies 9, no. 3 (2020): 472-500.
- Supera, Dominik, "Running out of Time (Deposits): Falling Interest Rates and the Decline of Business Lending, Investment, and Firm Creation, 2021

Day 3: Monetary policy, liquidity premia, and risk premia

- Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[A model of monetary policy and risk premia.](#)" The Journal of Finance 73.1 (2018): 317-373.
- Hanson, Samuel G., and Jeremy C. Stein. "[Monetary policy and long-term real rates.](#)" Journal of Financial Economics 115.3 (2015): 429-448.
- Nakamura, Emi, and Jón Steinsson. "[High-frequency identification of monetary non-neutrality: the information effect.](#)" *The Quarterly Journal of Economics* 133, no. 3 (2018): 1283-1330.
- Gertler, Mark, and Peter Karadi. "[Monetary policy surprises, credit costs, and economic activity.](#)" American Economic Journal: Macroeconomics 7.1 (2015): 44-76.
- Bernanke, Ben S., and Kenneth N. Kuttner. "[What explains the stock market's reaction to Federal Reserve policy?](#)" The Journal of finance 60.3 (2005): 1221-1257.
- Cieslak, Anna, and Annette Vissing-Jorgensen. "[The economics of the Fed put.](#)" No. w26894. National Bureau of Economic Research, 2020.
- Cieslak, Anna, Adair Morse, and Annette Vissing-Jorgensen. "[Stock returns over the FOMC cycle.](#)" (2018).
- Nagel, Stefan. "[The liquidity premium of near-money assets.](#)" The Quarterly Journal of Economics 131.4 (2016): 1927-1971.

- Wang, Olivier. "[Banks, low interest rates, and monetary policy transmission.](#)", Working Paper, 2018
- Hillendbrand, Sebastian, "The Fed and the Secular Decline in Interest Rates," Working Paper, 2021

Day 4: Inflation and financial intermediation

- Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. 2019, "[The Financial Origins of the Rise and Fall of American Inflation](#)", Working Paper.
- Kaplan, Greg, Benjamin Moll, and Giovanni L. Violante. "[Monetary policy according to HANK.](#)" *American Economic Review* 108, no. 3 (2018): 697-743.
- Clarida, R., Gali, J. and Gertler, M., 1999. [The science of monetary policy: a new Keynesian perspective.](#) *Journal of economic literature*, 37(4), pp.1661-1707.