

# **J M Keynes Fellowship Fund Lectures 2017**

Professor Giancarlo Corsetti

“Financial imperfection, transmission mechanism and economic policy: reflections on the long recession in the euro area”

## **Synopsis**

The global financial crisis and the great recession raised the need for a profound reconsideration of the theoretical and empirical models guiding economic policy, boosting work on macroeconomic and financial vulnerability to endogenous liquidity risks and market coordination problems, the aggregate effects of households income and employment risk, and financial constraint on firms growth. As this work offers new insight on how shocks and policy measures impact the economy (the transmission mechanism), it also raises fundamental issues and controversial political debates concerning the reform of the institutions of economic policy. Focusing on the euro area as a case study, the lecture sketches a model of the economic costs from insufficient or misguided institutional development, and advocate the need for a return to the classical approach by Tinbergen.