Money and Banking

Description

This course examines the nature of money and the roles that money plays in an economic system. The three broad areas of inquiry will be monetary markets, monetary policy, and monetary theory. The prerequisites for the course are EC 200 Introduction to Microeconomics and EC 201 Introduction to Macroeconomics. The study of Money & Banking serves as excellent preparation for courses in financial institutions, international monetary economics, and intermediate macroeconomics.

The nature of banking has changed in the last two decades. Following the Great Depression, banks became so highly regulated that "managing" a bank was basically a matter of following a set of rules prescribed by the regulatory authorities. Risk-taking activity--innovative, creative, entrepreneurial behavior--was largely absent; for a bank to lose money was difficult indeed.

With the recent deregulation movement, the profitability of the banking industry is no longer assured. Whereas the depository insurance programs, such as the Federal Deposit Insurance Corporation (FDIC) and the now defunct Federal Savings and Loan Insurance Corporation (FSLIC), used to operate in such a fashion that they implicitly guaranteed the survival of the financial institutions, they have now made it quite clear that they are willing to allow individual banks or savings and loans (S&Ls) to fail as long as the financial system does not fail.

Deregulation has brought with it a renewed interest in bank management, systemic risk, and the role of the government in the maintenance of the financial system. Manufacturers, retailers, stockbrokers, and insurance companies want to enter the banking business; and commercial banks want to underwrite securities and sell insurance. The Federal Reserve had long argued that banking must remain distinct from other lines of commerce. In the late 1990s, the Fed adopted the view that repeal of the Glass-Steagall Act of 1933, which had separated commercial banking from investment banking, would not be cause for alarm; and Congress did exactly that with the Gramm-Leach-Bliley Financial Services Modernization Act of 1999. During Congressional hearings on that bill, the Fed and the Treasury Department did, however, have major disagreements on the question of who should have regulatory authority over the resulting financial conglomerates.

Objectives of the Course

It is intended that, by the end of the course, students will have acquired the ability to do each of the following:

1. Explain how financial markets channel funds from persons who do not have a productive use for these funds to persons who do, a process that results in greater economic efficiency.
2. Explain how financial institutions make the financial markets work.
3. Explain how the money supply is linked to changes in economic variables that are important to all of us and important to the health of the economy.
4. Explain how monetary authorities determine and execute the appropriate monetary policy.
5. Explain the economic importance of financial news items as reported in leading financial publications such as the Wall Street Journal.

Required Material


The Wall Street Journal.

Special Needs

If you are a student with a documented disability who will require accommodations in this course, please register with Karen Saracusa, the Director of Disability Support Services, Hoover-Price Campus Center, Room 109, extension 7372, for assistance in developing a plan for addressing your academic needs.
Grades

Your grade will be based on two midterm exams, a comprehensive final exam, attendance, homework, and your participation in the class. Each absence beyond the second will cost you 2 points of your participation grade. Here is a listing of the crucial dates:

<table>
<thead>
<tr>
<th>Points</th>
<th>Item</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Participation</td>
<td>Participation and attendance.</td>
</tr>
<tr>
<td>25</td>
<td>Homework</td>
<td>Collected almost every class.</td>
</tr>
<tr>
<td>100</td>
<td>Exam 1</td>
<td>Tuesday, October 3.</td>
</tr>
<tr>
<td>100</td>
<td>Exam 2</td>
<td>Tuesday, November 7.</td>
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<tr>
<td>100</td>
<td>Final Exam</td>
<td>Wednesday, December 13, 8:00-11:00 A.M.</td>
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<tr>
<td>350</td>
<td>Total Points</td>
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Conduct

You are expected to attend every class session, to be well mannered and polite in class, to have read the assigned material, and to have prepared the written homework. A person with more than three absences should be reluctant to ask me for a reference letter for graduate school or employment. If you plan to cut more than five classes, chew gum during class, put your feet on the chair in front of you, or engage in generally rude behavior, you ought to give serious thought to finding another course before drop/add is over.

Academic dishonesty can result in penalties such as an F for the affected project (such as an exam), an F for the course, suspension from the College, or expulsion from the College. Please refer to the Mount Union College Policy on Academic Honesty. The policy was approved by the Faculty on 25 April 1989 and can be found in the Mount Union College Catalogue (it is on pages 63-64 of the 2005-06 Catalogue). You should also be aware of the Technology Resources Acceptable Use Policy on pages 83-88.

Finding Me

Office Hours

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
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<tbody>
<tr>
<td>Mon.</td>
<td>1:15- 1:50</td>
</tr>
<tr>
<td>Tue.</td>
<td>9:30-11:30</td>
</tr>
<tr>
<td>Wed.</td>
<td>1:15- 1:50</td>
</tr>
<tr>
<td>Thu.</td>
<td>9:30-11:30</td>
</tr>
<tr>
<td>Fri.</td>
<td>1:15- 1:50</td>
</tr>
</tbody>
</table>

Class Schedule

<table>
<thead>
<tr>
<th>Days</th>
<th>Time</th>
<th>Course</th>
<th>Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>M W F</td>
<td>9:00-9:50</td>
<td>EC 200</td>
<td>Chap 110</td>
</tr>
<tr>
<td>M W F</td>
<td>10:00-10:50</td>
<td>EC 310W</td>
<td>Chap 5</td>
</tr>
<tr>
<td>M W F</td>
<td>2:00-2:50</td>
<td>EC 327W</td>
<td>Chap 110</td>
</tr>
<tr>
<td>T R</td>
<td>11:45-1:00</td>
<td>EC 315</td>
<td>Chap 109</td>
</tr>
</tbody>
</table>

Other times are available by arrangement. My office is in Chapman 467, and my telephone number is 823-3255. Usually, the fastest way to reach me is through email: mylermr@muc.edu.
EC 315
Money and Banking

Reading List

NOTE: Numbers at the beginning of a line refer to Chapter numbers in the text by Mishkin.

I. Introduction.
   1. Why study money and banking.
   2. An overview of the financial system.
   3. What is money?

II. Financial Markets.
   4. Understanding interest rates.
   5. The behavior of interest rates.
   6. The risk-structure and term-structure of interest rates.
   7. [omit]

III. Financial Institutions.
   10. [omit]
   11. [omit]

IV. Central Banking and the Conduct of Monetary Policy.
   13. Multiple deposit creation.
   14. Determinants of the money supply.
   15. The tools of monetary policy.

V. International Finance and Monetary Policy
   17. [omit]
   18. [omit]

VI. Monetary Theory.
   19. The demand for money.
   20. The IS-LM model.
   21. Monetary and fiscal policy in the IS-LM model.
   22. Aggregate demand and aggregate supply.
   23. Transmission mechanisms of monetary policy.
   24. Money and inflation.
   25. Rational expectations [pp. 156-159].