

University of Utah  
Department of Economics  
Spring 2014 Semester

ECON 3200: Money and Banking  
Instructor – Mahfuz Raihan

Meetings: 11:50 AM-1:10 PM, M, W in OSH 107

Office# OSH 357

Office Hours – Monday 1:30 PM to 2:30 PM

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### **Course Description**

This course will examine the monetary and financial instruments, institutions and markets from the perspectives of theory, practice and policy, and will focus on history and evolution of the monetary and financial system, the modern financial system and banking money and finance in macroeconomic theory, and the conduct of monetary policy.

### **Prerequisites**

Introductory Micro and Macro Economics (ECON 2010 and 2020 or equivalents) & college Algebra

### **Course Objectives**

Upon completion of this course, students will:

- Understand the role of financial system and importance of money in a capitalist economy.
- Grasp the functioning of fixed income debt markets and master the pricing techniques of different debt securities.
- Learn the functioning of banking systems, Federal Reserve Systems, and their prowess to conduct monetary policy.
- Know the channels that link the monetary policy and the real economy

### **Learning Method**

The class sessions will be conducted with lectures, open class discussions, small group discussions, and in class quantitative exercises. Instructor's lectures will not supplement the text book. Thus, students will be required to read the assigned chapters from the text book before attending the class meeting in which they will be discussed. For open class discussion and group discussion, topics will be selected from the text book, the supplementary reading materials (case studies and articles), the Economists and the Financial Times newspapers.

This course is a quantitative intensive and requires a mastery of problem solving from students. Thus, students will solve various exercises in class, related to interest rate, asset pricing and monetary aggregates, etc. Instructor will make sure that every student participates in class exercises and understands the solutions properly.

### **Text Book and Readings**

The required text book for this course is “Money, Banking and the Financial System” by R. Glenn Hubbard and Anthony P. O’Brien, ISBN-10: 0132553457, Publisher: Prentice Hall. Students will be able purchase a copy of this book from the University book store or from the Amazon, or from other book sellers. Two other optional text books are (1) Money, Banking and Financial Market by Laurence Ball, 1<sup>st</sup> edition, and (2) The Economics of Money, Banking and the Financial Market by Federic S. Mishkin( 10<sup>th</sup> edition).

Other reading materials will include articles published in peer reviewed journals and national-international newspapers, case studies collected from various sources, etc. Instructor will post links or pdf versions of these materials on canvas in time. Students will be expected to read *The Economist* each week and *The Financial Times* most days during the semester.

### **Grading Policy:**

Every examination will be preceded by **home works and quizzes**. I shall ask questions for the examinations similar to home work and quiz questions. Thus, students should be able to use homework and quiz as platform to prepare for the examinations.

**Home works** will cover a group of chapters and will ask multiple choices, quantitative problems and qualitative problems. **Quizzes** will be un-announced and will ask mostly multiple choice questions. The objectives of home works and quizzes are to ensure students’ deep understanding of the subject matters, and to encourage students to remain up-to-date with class materials.

Students will have a few of **articles and case-studies** every week. These articles and case-studies will cover current economic issues and will show students how to make connections with the concepts they learn from the text book, class lectures and class discussions. Reading these articles and case-studies in time will prepare students for participating in class discussions and for the examinations.

*Make up Examinations for Midterms and Final will be allowed only for valid medical reasons, supported by proper documents.*

## **Grading Policy and Distribution:**

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	Date	Weight
Class attendance and participation		10%
Home works		20%
Quiz		10%
Midterm Exam-1		20%
Midterm Exam-2		20%
Final Exam		20%
Total		100%

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## **Letter Grade Assignment:**

$A \geq 90\%$ ,  $90\% > A- \geq 85\%$ ,  $85\% > B+ \geq 80\%$ ,  $80\% > B \geq 75\%$ ,  $75\% > B- \geq 70\%$ ,  $70\% > C+ \geq 65\%$ ,  $65\% > C \geq 60\%$ ,  $60\% > C- \geq 55\%$ ,  $55\% > D \geq 50\%$ ,  $50\% > E$

Incomplete grade will be given only for valid medical reasons, supported by proper documents. According to university regulations, you must be passing the class at the time you get an incomplete.

## **Topics to be covered:**

### *Introduction and Payment System*

(1) Introducing Financial System, Hubbard and O'Brien: Ch-1

-**Case Study:** Microfinance: Bank for the Poor- Ball, ch-1, Page 16

(2) Money and Payment System; Hubbard and O'Brien: Ch-2.

-**Case Study:** Cigarette Money in POW camp by Radford

-**Readings:** Island of Stone Money by Milton Friedman

-**Graph the following**

- The Monetary aggregates M1 and M2 from the 1960 to present-yearly, non-seasonally adjusted
- Growth rates of M1 and M2 from 1990 to present-quarterly, non-seasonally adjusted

These data can be found on the St Louis Fed's FRED Database: <http://research.stlouisfed.org/fred2/>

-**Solve Quantitative Problems:** See the canvas

### *-Determination and Structure of Interest Rate -*

(3) Interest Rate and Rates of Return; Hubbard and O'Brien: Ch-3

-**Case Study:** Treasury Inflation Protected Securities (TIPS). See the canvas

**-Graph the following** (monthly average, non-seasonally adjusted)

- Real 10-yr Treasury Yield--Monthly 10-yr constant maturity yield minus 12-month change in Core CPI 1980 to present;
- Inflation Expectations--5-yr Constant maturity Treasury yield minus 5-yr constant maturity Treasury Inflation Index, 2003 to present

These data can be found on the St Louis Fed's FRED Database: <http://research.stlouisfed.org/fred2/>

**-Solve Quantitative Problems:** See the canvas

(4) Interest Rate Determination; Hubbard and O'Brien: Ch-4.

**-Case Study:** Budget Deficit and Interest Rates- Ball, ch-4, Page 93

**-Case Study:** Did a global savings glut cause the US housing boom? Hubbard, Ch-4, Page 113

(5) The Risk Structure and Term Structure of Interest Rate; Hubbard and O'Brien: Ch-5.

**-Case Study:** Do Credit Rating Agencies have a conflict of interest? Hubbard, Ch-5, Page 127

**-Case Study:** Term Structure to Forecast Economic Recession? Hubbard, Ch-5, Page 145

**-Graph the following** (1980 to present monthly average, non-seasonally adjusted)

- Yield Curve Slope--10-yr constant maturity Treasury minus effective Fed Funds rate
- Compare Yield Curve Slope series with 12-month % change in Industrial Production

These data can be found on the St Louis Fed's FRED Database: <http://research.stlouisfed.org/fred2/>

**-Solve Quantitative Problems:** See the canvas

***First Midterm Examination- Duration Maximum 1 hour and 20 minutes:***

*Financial Markets and Institutions-*

(6) The Stock Market and its Efficiency, Hubbard and O'Brien: Ch-6.

**-Reading:** What do we know about Stock Market Efficiency? By Ray Ball

**-Case Study:** Investment in Stock Market by Picking Stock Randomly, Hubbard, Ch-6, Page 175

**-Solve Quantitative Problems:** See the canvas

(7) Economic Analysis of Financial Structure; Hubbard and O'Brien: Ch-9.

**-Reading:** The Market for Lemons: The quality uncertainty and the market mechanism by Akerlof, George. A.

**-Case Study:** Has Securitization Increased Adverse Selection Problems? Hubbard, Ch-9, Page 263

**-Case Study:** Moral Hazard in Stock Market & Tyco CEO Dennis Kozlosky, Ball, Ch-7, Page 196

**-Case Study:** Bernard Madoff and His Ponzi scheme, Ball, Ch-7, Page 198

(8) The Economics of Banking; Hubbard and O'Brien: Ch-10.

**-Reading:** Banks and Deposit Creation: A simple exposition of Diamond-Dybvig model by Diamond, Douglas.W

**-Case Study:** Theory and Evidence for Narrow Banking: see the hand out

**-Case Study:** Trend in US Banking Industry: Dual Banking System, Bank Run & FDIC, Emergence of Nationwide Banking.

**-Solve Quantitative Problems:** See the canvas

**- Graph the following:** yearly from 1973 to present

Treasury & Agency Securities on bank balance sheets

Consumer loan, Commercial & Industrial Loans and Real Estate Loans

**-Graph the following:** yearly from 1973 to present  
Checking Deposit, Savings Deposit and Large Time Deposits

These data are available from the Fed's H.8 Assets and Liabilities of Commercial Banks:  
<http://www.federalreserve.gov/releases/h8/data.htm>

(9) Financial Crisis of 2007-2009 and Financial Regulation, Hubbard and O'Brien: Ch-12

**-Readings:**

- Deciphering the Liquidity and Credit Crunch 2007-2008 by Brunnermeier, Markus.K
- Securitized Banking and the run on Repo by Gorton, Gary & Metrick, Andrew

**-Case Study:** Troubles Asset relief Program (TARP)-Government response to Great Recession: See the Handout

**Second Midterm Examination- Duration Maximum 1 hour and 20 minutes:**

*Central Banking and Conduct of Monetary Policy-*

(10) The Federal Reserve and Money Supply Process; Hubbard and O'Brien: Ch-13, 14.

**-Readings:**

- A Brief History of Central Banks by Michael Bordo
- Come with Me to the FOMC, Laurence Meyer

**-Case Study:** Explaining the explosion in the Monetary Base during 2007-2008 Financial crisis

**-Graph the following:** (Monthly 1978 to present)

- Total Bank Reserves and Monetary Base, along with M1 and M2, use 12-month % changes in the non-seasonally adjusted versions of all series
- Money Supply Multipliers

**-Solve Quantitative Problems:** See the canvas

(11) Monetary Policy and Targeting; Hubbard and O'Brien: Ch-15.

**-Readings:** John Taylor rules by: Donald Kohn

**-Graph the following:** (Quarterly, 1992 to present): Effective Funds Rate and Taylor Rule estimate of Funds Rate

*Monetary Theory*

(12) The Demand for Money and Quantity Theory; Mishkin, Ch-23

**-Reading:** The Quantity Theory of Money-its historical evolution and its role in policy debates by Humphrey, Thomas. M

**-Graph the Following**

- The Velocity of Money for M1 and M2 from the 1960 to present-yearly, non-seasonally adjusted
- Growth rate of M1, M2 and change in CPI from 1990 to present-quarterly, non-seasonally adjusted

These data can be found on the St Louis Fed's FRED Database: <http://research.stlouisfed.org/fred2/>

(13) Money and Output: AS-AD Model; Hubbard and O'Brien: Ch-17

**-Reading:** The Role of Monetary Policy by Milton Friedman

**-Case Study:** The US Economy, 1960-2010, Ball Ch-12, Page 379

(14) Inflation and Deflation: Ball, Ch-14

**-Readings:**

- The Cause and Cure of Inflation by Milton Friedman
- The Consequences to Society of Changes in the value of Money by John Maynard Keynes

**-Case Study:** The German Hyperinflation, Ball Ch-14, Page 430

**-Case Study:** Oil Price and Inflation, Ball Ch-12, Page-370

*Final Examination- Duration Maximum 2 hours*

**Policy:**

·Internet browsing during class hour will be penalized by cutting 1% points for each violation but maximum 5% from class attendance.

· ADA Statement: The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability Services, 162 Union Building, 581-5020 (V/TDD). CDS will work with you and the instructor to make arrangements for accommodations

Finally, the Instructor reserves the right to make changes in this syllabus as the need arises during the semester.

