

# Money, Banking, and Financial Markets

Consortium Institute of Management  
and Business Analysis  
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## Course Description

This course studies the role of financial markets and money in the economy. It examines how interest rates are determined, how money is created by the banking system and the role of the Federal Reserve (or Central bank, such as the ECB) in the whole process. Issues like the banking crisis and the proper role of monetary policy will be examined in detail. The interaction between the goods sector and the financial sector, as well as the interrelationships between the domestic and the international financial sectors will be analyzed.

## Course Expectation and Prerequisites

Principles of Microeconomics – ECON1100 We will review the first week. The terminology and assessment skills are expected (e.g. a shift in demand versus a change in the quantity demanded)

Principles of Macroeconomics – ECON1200 We will review the first week. An overall understanding of monetary versus fiscal policy and aggregate demand analysis is expected.

## Course Goals

1. Identify functions of money and how money is related to interest rates; how interest rates are determined; behavior of interest rates; risk and term structures of interest rates;
2. Understand importance of financial markets and financial institutions in the economy; operations of depository institutions; why they are regulated;
3. Explain how a nation's money supply is determined; tools of monetary policy, role of central banks and the Federal Reserve System, conduct of monetary policy

## Course Methods

The course will be a mixture of class discussion and lecture. To a greater extent than almost any course, this course's topics will be contained in the daily headlines. It will be critical to stay up-to-date on current events.

## Class Procedure and Grading

Class will be a mixture of problem review, current event discussion, and lecture.

You will be assigned textbook problems every week. We will review the problems in class. Following, there will be discussion of current topics/events. The class will complete with lecture on the next topic. Success in this class will occur through integration, not memorization. We will use economic techniques to objectively analyze economic events.

## Grading

Interim Tests – 375 points (125 each)

Final – 260 points

Homework – 140 points (10each)

Current topic – 225 points (75 each)

Course grades will be approximately distributed according to the recommended guidelines of the Economics Department at the University of Iowa, which is 30% A's, 40% B's, 25% C's and 5% D's. These are only guidelines. Actual Distribution will depend on specific class performance.

Tests – There will be three interim tests (non-cumulative) and a final (cumulative). You may use a calculator. You may bring a one-page cheat sheet to each exam. Limit one letter- or A4-size page, one side. Please put your name on the cheat sheet and hand it in with the exam.

Homework – Homework will be taken from the numbered “Questions and Applied Problems” at the end of each chapter. You may work with as many fellow students as you wish, but you must turn in your own homework. Typed submissions are preferred, written is acceptable if extremely legible. Homework will be due at the beginning of the session assigned. (see schedule)

Paper Topics – Paper topics will be a “current event” discussion. Please find an article, published since January 1, 2012 that pertains to the topic listed. Provide a two-page paper (12-point font, double-spaced) that summarizes the article AND explains the article in “textbook” terms and concepts. Cite the article. Papers will be completed in teams of three students (a team of two or four will also occur). Papers must be submitted as a word processing document. (.doc, .docx, .rtf, .txt only). The file name of the paper must hold to the following structure: Last name1\_Last name2\_MandB\_Paper#. For example, if I were working with Joe French, my second paper would have a file name of: French\_Kline\_MandB\_Paper2.docx

Papers will be due prior to the beginning of the class session assigned. (see schedule)  
I will indicate in class whether to use the ICON dropbox or e-mail as an attachment to:  
Bruce.kline@colorado.edu

## **Course Materials:**

“*The Economics of Money, Banking, and Financial Markets*” 10th edition by Frederic Mishkin  
I also strongly recommend regular reading of [www.economist.com](http://www.economist.com) and [www.wsj.com](http://www.wsj.com)

### **Wall Street on the Tundra**

<http://www.vanityfair.com/politics/features/2009/04/iceland200904>

### **Beware of Greeks Bearing Bonds**

<http://www.vanityfair.com/business/features/2010/10/greeks-bearing-bonds-201010>

### **When Irish Eyes are Crying**

<http://www.vanityfair.com/business/features/2011/03/michael-lewis-ireland-201103>

### **It's the Economy, Dummkopf!**

<http://www.vanityfair.com/business/features/2011/09/europe-201109>

### **A (Subprime) Catastrophe Foretold**

<http://www.spiegel.de/international/0,1518,513748,00.html>

## Class Schedule

<b>Class Session</b>	<b>Topics</b>	<b>Assignments</b>
1 Short session	<b>Introductions</b> <b>Course Framework / Review</b>	
2	<b>Review Principles of Micro (1100) and Macro (1200)</b> <ul style="list-style-type: none"> <li>• Supply/Demand/Equilibrium</li> <li>• Fiscal versus Monetary Policy</li> </ul> <b>Chapters 1 and 2</b>	
3	<b>Review Principles of Micro (1100) and Macro (1200)</b> <ul style="list-style-type: none"> <li>• Supply/Demand/Equilibrium</li> <li>• Fiscal versus Monetary Policy</li> </ul> <b>Chapter 3</b> What is Money?	
4	<b>Chapter 4</b> Understanding Interest Rates	Problems 3-7, 3-12 Determine growth in M2 since September, 2008
5	<b>Chapter 5</b> The Behavior of Interest Rates	Problems 4-17, 4-22 Lottery problem
6	<b>Chapter 6</b> The Risk and Term Structure of Interest Rates	Problem 5-3, 5-11, 5-19, 5-21
7	<b>Test</b>	Problems 6-8, 6-11, 6-17, 6-21
8	<b>Chapter 8 and 9</b> An Economic Analysis of Financial Structure Financial Crises	Current topic paper – interest rates and yield curves
9	<b>Chapter 10</b> Banking and the Management of Banking Institutions	Problems 8-11, 8-12, 9-3, 9-12
10 Short Session	<b>Catch-up / Review / Accelerate</b>	
11	<b>Chapters 11 and 12</b> Economic Analysis of Financial Regulation Banking Industry: Structure and Competition	Problems 10-3, 10-10, 10-11
12	<b>Test</b>	Problems 11-7, 11-19, 12-12, 12-13
13	<b>Chapter 13</b> Central Banks and the Federal Reserve System	
14	<b>Chapter 14</b> The Money Supply Process	Problems 13-1, 13-17, 13-23
15	<b>Chapter 15</b> Tools of Monetary Policy	Problems 14-5, 14-13, 14-16, 14-17
16	<b>Chapter 16 &amp; Appendix</b> The Conduct of Monetary Policy	Problems 15-4, 15-6, 15-23

17	<b>Test</b>	Problems 16-2, 16-12, 16-24
18	<b>Chapter 17</b> The Foreign Exchange Market	Current topic – Central Bank crisis response
19	<b>Chapter 18</b> The International Financial System	Problems 17-10, 17-13,17-19
20	<b>Chapter 19</b> Quantity Theory, Inflation, and the Demand for Money	Problems 18-9, 18-20, 18-25
21	<b>Chapter 22</b> Aggregate Demand and Supply Analysis	Problems 19-6, 19-11
22	<b>Review</b>	Current topic – Foreign exchange
23	<b>Final Examination</b>	

## Structural Policies

Virtually everything that concerns the structural mechanics of this class, including among other things course credit, dropping and adding, and academic misconduct is governed by the Tippie College of Business, University of Iowa. Specific structural policies in that regard include:

**Accommodating Disabilities:** If you have a disability that may require some modification of seating, testing, or any class requirement, please let me know as soon as possible so that appropriate arrangements can be made. Similarly, if you have any emergency medical information that I should be aware of, or if you need special arrangements in the event of the building being evacuated, please let me know. Please see me after or outside of class to discuss these issues.

**Policy on Cheating:** It is my sincere hope that no student in this class submits work which is not his or her own. However, it seems prudent to clarify in advance the policy on cheating. If I determine that any assignment was not written solely by the student whose name appears on the assignment, the student will receive a zero (0) for the assignment and may receive an “F” for the class. All incidents of cheating will be reported to the CIMBA Undergraduate Office and the Associate Dean of the Tippie College of Business and the student may be placed on disciplinary probation for the remainder of the semester. In general, the decision of the professor may be appealed to the CIMBA Undergraduate Staff and/or the College of Business Judicial Board, then to the Associate Dean for the Undergraduate Program. The Honor Code for the Tippie College of Business will determine the appropriate process. The Honor Code is located on the University of Iowa website.

**Sexual Harassment:** The CIMBA Undergraduate Program and The University of Iowa are committed to providing students with an environment free from sexual harassment. If you feel that you are being or have been harassed or you are not sure what constitutes sexual harassment, we encourage you to visit the University website, [www.sexualharassment.uiowa.edu/index.php](http://www.sexualharassment.uiowa.edu/index.php), and to seek assistance from the CIMBA Director, Brandelle Unkrich, at 319-335-1041 or [brandelle-unkrich@uiowa.edu](mailto:brandelle-unkrich@uiowa.edu)

**FERPA Requirement:** To participate in this class, it may be necessary to reveal to other students the names of students who are enrolled in this course. If you do not want your name revealed to other students enrolled in this course, please contact me in writing by the end of the first week of class.

**Complaints:** Student concerns regarding this course should first be discussed with me, the faculty member teaching this course. If we can't resolve the complaint, you may contact the Economics Department Chair, John Solow (319-335-0845, [john-solow@uiowa.edu](mailto:john-solow@uiowa.edu)). If you cannot resolve the complaint by speaking with the DEO, you may contact the Associate Dean of the Undergraduate Programs, Ken Brown at [kenneth-g-brown@uiowa.edu](mailto:kenneth-g-brown@uiowa.edu).

## Class Attendance Policy

Attendance at all classes and CIMBA sanctioned activities is MANDATORY. All unexcused absences will have the following consequences:

- 1<sup>st</sup> absence will result in the loss of 1/3 of a letter grade in the class
- 2<sup>nd</sup> absence (cumulative) will result in the loss of an entire letter grade
- 3<sup>rd</sup> absence (cumulative) will result in dismissal from the program

Absences due to illness require a note from the CIMBA Undergraduate Office Staff and/or the Istituto Filippin medical staff. If you are sick and cannot attend class, you must inform the CIMBA Staff immediately with failure to do so will result in an unexcused absence.

## Setting Appointments

My purpose here is to give you the best integrated learning experience possible. If you are having trouble or need more detailed instruction, please let me know. We will schedule time for review.