

Money, Banking, and Financial Markets
Consortium Institute of Management and Business Analysis
Fall 2014



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Course Description

This course focuses on the study of financial markets and institutions, including in particular the study of money and banking, and their interrelationship with the rest of the economy. Included are an introduction to present value and the behavior of interest rates, analysis of money creation, evaluation of monetary policy and the role of the Central banks and the Federal Reserve System and their effect on the economy through monetary policy. Other topics covered will include the interrelationship between the domestic and international financial markets as well as banking crises as its lessons for today.

Course Prerequisites and Expectations

Principles of Microeconomics and Macroeconomics (course designation will differ from institution to institution).

The student is expected to have a reasonable understanding of concepts covered in this class including, but not limited to, market supply and demand, aggregate supply and demand, economic growth and definitions of GDP and inflation and the basics of money creation through the actions of the Fed and commercial banks as covered in the principles courses. I will only very briefly review these concepts over the course of the semester.

Course Goals and Objectives

After completing this course the students should be able to identify, evaluate and/or explain:

1. Functions and structure of financial markets
2. The rate of return and the behavior of interest rates
3. Financial crises and the subprime meltdown
4. Banking and the management of financial institutions
5. Central banks and the Federal Reserve System
6. The money supply process
7. Tools of monetary policy
8. The conduct of monetary policy
9. The foreign exchange market and the international financial system

Textbook

The Economics of Money, Banking, and Financial Markets by Frederic S. Mishkin, 10th Edition, Pearson.

Recommended Supplements

Wall Street Journal, Financial Times, BusinessWeek, The Economist, International Newspapers

Course Procedure

The structure of this class makes your individual study and preparation extremely important. The lectures will focus on the major points introduced in the text. If you read and have at least some familiarity with the assigned chapter before the lecture, this will greatly enhance the learning experience. The lecture will focus on the more difficult aspects of each chapter and on problems which deal with the material. If you have not read the chapter and do not understand the definitions and simple concepts, you will not be able to grasp the more complex topics covered in the lecture. After the lecture, you should review your notes and in the process work relevant problems and questions at the end of the chapter. The more problems you work out the better you will do in this class.

The instructor will lecture and lead class discussions. Students are expected to prepare for each class and participate. Students have the primary responsibility for their learning. The instructor's role is to help students learn by leading the learning process.

In each class we will first cover any end of chapter problems/questions you had difficulty solving/answering. This will be followed by a discussion of current events and will culminate with a regular lecture. I am a strong believer of the Socratic Method and this will be used extensively in class.

Class Attendance and Grading

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

1. First absence will result in a loss of ½ of a letter grade for the course (e.g. B+ to B-, B to C+)
2. Second absence (cumulative) will result in a loss of a full letter grade for the course (e.g. B+ to C+)
3. Third absence (cumulative) will result in a 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 a student is sick and cannot attend class, he/she must inform the CIMBA Staff immediately. Failure to do so will result in an unexcused absence.

Grading: Course grades will be approximately distributed according to the recommended guidelines of the Economics Department at the University of Iowa; that 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. You may refer to <http://tippie.uiowa.edu/undergraduate/advising/grading-policies.cfm> for more on this.

Your performance in this class will be determined by your total performance on all the assignments. Please see the Assignment section below. The following scale will be used to determine the final grades:

A+ = 98-100	B+ = 86-89	C+ = 76-79	D+ = 66-69	F = 0-59
A = 94-97	B = 83-85	C = 73-75	D = 63-65	
A- = 90-93	B- = 80-82	C- = 70-72	D- = 60-62	

Curve: I curve each exam grade up to and including a 70 (or C). My policy on curving is the following: If the class average for a particular exam is below a 70, I give everyone in class, no matter what grade he/she gets, equal number of points in order to make the average a 70. For example, if the class average (including the points for participation) is a 65 I add 5 points to everyone's score in order to make the average a 70. The curve will not be added directly to your grade. I will create a new column where the numbers of points to be added to your score will reside. I will add the points to the exam grade at the end of the semester.

If I feel the class is not doing its best as a whole, I reserve myself the right to not grant a curve for a specific test.

Assignments

In class Exams (80 percent of grade): There will be two mid-term examinations (non-cumulative), each worth 20 percent of your grade, and a final exam (cumulative) worth 40 percent. Each exam will consist of essay/problem solving questions; there are no multiple-choice questions on the exams. You are required to bring a calculator to the exams. Please note that calculator apps in your cell phones or other mobile devices are not allowed. You may bring a one-page cheat sheet to each exam. Limit one letter- or A4-size page, one side. These may only include definitions and/or formulas. Please put your name on the cheat sheet and hand it in with the exam. If you include more information than allowed in this cheat sheet you will receive a zero (0) in the exam.

The dates for the in class exams are as follows:

- Midterm Exam 1: Class after Chapter 7 is covered
- Midterm Exam 2: Class after Chapter 13 is covered
- Cumulative Final Exam: CIMBA designated (TBD)

In order to be successful in this class and do well in the exams you will need to be able to analyze problems, rather than memorizing facts. Approximately 70-75% of material covered on course exams relates directly to material covered in class sessions. The remaining 25-30% of exam material is drawn from specific readings and problems assigned (but don't cover extensively in class).

If you miss an exam due to illness you must make it up the day are able to return to classes. If this is not possible then you have until the day after you are able to return to classes as specified by the doctor or CIMBA representatives. If it is determined that you have copied in an exam you will receive a zero (0) in the exam. Receiving an F in the course is also a possibility based on the severity of the offense. Any misconduct will be reported to the CIMBA Undergraduate Office and the Associate Dean of the Tippie College of Business.

Web Exercises (20 percent of grade): Homework will be taken from the numbered "Questions, Applied Problems and Web Exercises" at the end of each chapter. You may work with up to

three fellow students, but you must turn in your own homework. Please include the names of those you worked with at the bottom of the assignment. Typed submissions are preferred, written is acceptable if extremely legible. While Questions, Applied Problems assigned are for practice only and will not count towards your grade, *the web exercises will be due at the beginning of the following class*. For example, if chapter 2 is covered on October 1, 2014 the web exercise for this chapter will be due before class begins on October 3, 2014. No late assignments will be accepted. If you miss an assignment you will receive a zero. If you cannot submit an assignment due to illness you will have until the day after you are able to return to classes to submit the assignment. You must have a doctor's excuse or some sort of notice of illness. Plagiarism is not allowed. If it is determined that you used any web resources, other than those required for the web exercises, you will receive a zero in the assignment and your conduct will be reported to the CIMBA Undergraduate Office and the Associate Dean of the Tippie College of Business.

Even though the questions and applied problems will not be collected or graded it is highly recommended that you complete them. These will help you better prepare for the exams given that similar questions/problems to those found at the end of the chapter may be found in the exams.

Course Outline

Chapter	Assignment/Due at the beginning of the following class or as announced in class
Introduction/Syllabus	
Chapter 2: An Overview of the Financial System	Questions: 2, 3, 5, 9, 12 Web Exercises: 1
Chapter 3: What is Money?	Questions: 1, 5, 6, 17 Applied Problems: 19 Web Exercises: 1
Chapter 4: Understanding Interest Rates	Questions: 5, 11 Applied Problems: 15, 16, 20, 22 Web Exercises: 2
Chapter 5: The Behavior of Interest Rates	Questions: 6, 11, 19 Applied Problems: 20, 21 Web Exercises: 2
Chapter 6: The Risk and Term Structure of Interest Rates	Questions: 8, 11, 13, 17, 21 Applied Problems: 24 for 1, 2 and 3 year maturity. Do not graph results. Web Exercises: 2
Chapter 7: The Stock Market, The Theory of Rational Expectations, and the Efficient Market Hypothesis	Questions: 1, 8, 11, 17 Applied Problems: 23, 24 Web Exercises: 1, 2
Chapter 8: An Economic Analysis of Financial Structure	Questions: 9, 11, 12, 19 Applied Problems: None Web Exercises: None

Chapter 9: Financial Crises	Questions: 2, 12, 17, 23 Applied Problems: None Web Exercises: 2
Chapter 10: Banking and the Management of Financial Institutions	Questions: None Applied Problems: None Web Exercises: None
Chapter 11: Economic Analysis of Financial Regulation	Questions: 3, 7, 11, 19 Applied Problems: 21, 23 Web Exercises: None
Chapter 12: Banking Industry: Structure and Competition	Questions: 12-14, 21 Applied Problems: None Web Exercises: None
Chapter 13: Central Banks and the Federal Reserve System	Questions: 1, 17, 23, 24 Applied Problems: None Web Exercises: 2
Chapter 14: The Money Supply Process	Questions: 5, 13 Applied Problems: 16, 17 Web Exercises: 3
Chapter 15: The Tools of Monetary Policy	Questions: 4, 6, 13, 16 Applied Problems: 23 Web Exercises: 2
Chapter 16: The Conduct of Monetary Policy: Strategy and Tactics	Questions: 2, 12, 23 Applied Problems: None Web Exercises: 3
Chapter 17: The Foreign Exchange Market	Questions: 3, 10 Applied Problems: 17, 18, 20, 21 Web Exercises: 1, 2
Chapter 18: The International Financial System	Questions: 3, 5, 10, 23 Applied Problems: None Web Exercises: None
Chapter 19: Quantity Theory, Inflation and the Demand for Money	Questions: 6, 11 Applied Problems: 21, 23 Web Exercises: 1

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.

Academic Misconduct: Students may work with other students, share information, etc. on all assignments except for exams. Plagiarism, cheating, unauthorized collaboration and other areas are covered by the Honor Code. If expectations about attendance and performance are violated, or if students commit academic misconduct, the CIMBA office policies prevail. CIMBA has an Honor Code in the College and they are bound by this Code even if they are not Tippie College of Business students. Tippie College Undergraduate Honor Code can be found at: <http://tippie.uiowa.edu/undergraduate/honorcode/>. It covers information about cheating, plagiarism, unauthorized collaboration, obtaining an unfair advantage, forgery, facilitation of academic dishonesty and misrepresentation, as well as its consequences.

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: CIMBA, The Tippie College of Business 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 of Iowa website: <http://www.sexualharassment.uiowa.edu/index.php> to seek assistance from the department chairs, Dean’s Office, the University Ombudsmen Office, or the Equal Opportunity and Diversity Office (ombudsperson@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/Grievance Policy: 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). If you cannot resolve the complaint by speaking with the chair, you may contact the Associate Dean of the Tippie College Undergraduate Program, Lon Moeller, at 319-335-0924, or by email at lon-moeller@uiowa.edu.

Other Policies

Open Door Policy: Please feel free to set up an appointment if you have questions, or just would like to talk.

E-mail Communication and Etiquette: The best way to contact me outside of class and office hours is via email. You should view your e-mail as a professional business communication in which you are trying to impress the reader and not as a text message to one of your friends or classmates. In the interest of achieving this goal, emails sent to me must meet the following requirements: Emails must have “MBFM” in the subject line. Any form of communication is expected to include proper grammar, capitalization and punctuation. Lastly, emails must be signed with both your first and last names. Please be very specific as to your question, concern and/or comment.

Tips on how to Succeed in this Class

1. Be attentive in class, take good detailed notes, participate in discussion, and read the chapters ahead of time. Don't work on other class material while you give partial attention to the class.
 - a. Make sure to turn off all electronic communication and game devices before class begins. If you want to send or receive messages, place or receive phone calls, play games or search the Internet, etc., do this outside of the classroom. Students who violate this policy distract me, degrade the classroom experience for other students, and will be asked to leave the classroom.
 - b. Read each chapter before you come to class. To make sure you understand the details, know the meaning and proper use of the key terms in the back of each chapter.
 - c. Pay special attention to all material emphasized in class, and especially the reasoning on the topics. Class material should not be considered difficult, but rather something new that needs to be understood before it can be learned.
2. Form an informal study group. Teach other in your study groups. Keep these groups small. Large groups tend to be more distracting.
3. Let me know of any questions you may have.
4. You are personally responsible for learning the material and doing well.
5. Make sure you complete all the assignments that are due before class as these are designed to speed your comprehension of the course material.