

**CIMBA**  
**ITALY**  
**MONEY BANKING AND FINANCIAL MARKETS**  
**ECON:3335**  
**SPRING 2016**

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**Introduction:**

Welcome to Economics 3335 Money, Banking and Financial Markets. You will find this to be a very important course in helping you to understand banking, the Federal Reserve and the impact financial and economic markets. It will help you in your career (whatever your major) and in your personal life as you make decisions about consumption, saving and investing for the future. You are here in one of the most critical periods in European history. The European Union (EU) is in the middle of an immigration crisis which has implications for huge changes in EU policies. A number of European banks are undercapitalized. Britain will be voting to stay in or leave the EU (Brexit) and it is still possible that Greece may Grexit. In addition, the EU economy is barely growing and seems to be headed toward deflation and the euro has weakened against the dollar by about 15 % in the last 12 months (which from your point of view is a good thing). The combination of lower prices and a stronger dollar should make your travel funds go a lot further. The slower economic growth also has implications for European banks and European monetary policy. Currently, the United States is 77 months into its recovery from the longest and deepest recession since the 1930's Depression due partly to a breakdown in domestic and global financial markets. The recovery from the recession has been slow but by the end of 2015 the job market is expected to be completely recovered and, if it continues, should have positive implications for your job prospects when you graduate. However, the Federal Reserve is very likely to raise interest rates for the first time in 9 years on December 16, 2015 which has global implications for U.S. economic growth as well as the strength of the dollar. During the course of the semester, you will be studying the implications of these issues on changing financial markets. One part of my job is to help you to understand some of the implications of these changes and to update the text so that you will be aware of some of the major changes that have occurred since your textbook was printed like the role of the Dodd-Frank Act on financial institutions. The course requires you to read two to three chapters a week and keep up with Bloomberg website <http://www.bloomberg.com/europe>. I am available to help you to understand the material both in class and during office hours as often as you want. Please feel free to come to my office and discuss all aspects of the course. My formal office hours are \_\_\_\_\_ ,times.\_\_\_\_\_.

**Course Objective:**

The main objective is to understand the role of money, banking and interest rates in your business life and in your personal life. The Course is divided into three parts. Part 1 will quickly review the four goals of every economy and defines the long term goals of the Federal Reserve. We will also introduce you to money and the payments system and some of the empirical research relating money supply to various economic variables such as inflation, economic growth, unemployment and exchange rates. The role of money markets and capital markets is discussed within a background of how interest rates are determined in money and capital markets. Understanding certain financial terms such as present value, yield to maturity, and various types of risk are essential to understanding both short term and long term interest rate determination. Part 2 is a more in-depth look at banking. First, a bank balance sheet is explained and analyzed. Next, a number of the financial ratios used to evaluate banks such as return on assets, return on equity and net interest margin are introduced. Third, a number of bank risks are discussed such as credit risk, liquidity risk, operational risk, and market risk. Fourth, a historic review of the development of interstate banking in the United States helps explain why the United States has so many more banks than countries such as England and Canada. In addition, we will review some of the changes in product development, organizational development, geographic development and regulatory development that have occurred in banking from the Glass-Steagall Act of 1933 to the Dodd-Frank Act of 2010. Bank regulation and supervision will also be examined.

The third part of the course is focused around the Federal Reserve Bank and its role in the United States financial system. The current role of monetary policy and the Fed's balance sheet as well as some new tools the Fed has acquired to deal with the Great Recession and deflation. The Bank of England and the European Central Bank will be compared and contrasted with the Federal Reserve. You will become a "Fed Watcher". We will review and examine the December 15-16, 2015 statement as well as the Fed Statements on January 26-27 and March 15-16 of 2016. The team presentation will address the question "What will the Fed do with Monetary policy at its April 26-27, 2016 FOMC meeting and why"? Teams will be expected to answer questions based on their presentation, information discussed in class, from the text or other sources such as speeches from FOMC members, as well as class notes. The team presentations will be done the last two class periods.

**Course Materials & Resources:**

Required Text: Money, Banking, and Financial Markets, Stephen G. Cecchetti and Kermit L. Schoenholtz, Mc Graw-Hill Education, Fourth Edition

St Louis Federal Reserve Bank data (FRED) See appendix in Chapter 1 of text

<http://www.bloomberg.com/europe>

<http://federalreserveonline.org/> Current Speeches by FOMC Members

<http://www.econoday.com/economic-calendar.aspx>

a regular calculator is required for this course

## **Policies and Procedures:**

### **Grading:**

There will be two major tests, a final examination, and a team presentation. The two tests will be worth 25 percent each and the final exam will be worth 25 percent. A team presentation will constitute 15 percent of the final grade. Ten percent will be based on quizzes given in each class period (1 point for each quiz counted), class discussion, and a one page critique of a topic relevant news article (one-half point for each critique accepted). The final grade will use plus or minus grading. 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.

### **Types of Tests and Quizzes:**

The quizzes will be objective and mainly multiple-choice (occasionally there will also be true false and fill in the blank). The quizzes will be mainly from the assigned reading. The tests and the final examination will be essay questions and problems and cases. The essay questions will be graded on the basis of the following four criteria: (1) content, (2) organization, (3) grammar, (4) the quantity and quality of the outside reading (including articles from the Bloomberg website, case studies, and the assigned handouts will also be tested directly with at least one major question on each test and final examination. Naturally, content is the most important element in an essay question and will constitute 60 percent of your grade for each essay question. The other three criteria will constitute the other 40 percent.

### **Dates of Two Tests, Final Examination and Fed Challenge**

The first test will be given on \_\_\_\_\_ and the second test will be given on \_\_\_\_\_ final examination will be given on April 6 to April 8. The actual date of the final examination date is determined by CIMBA. The Fed Challenge will be held on the last two days of class.

### **Late assignments**

No assignment will be accepted after its due date.

### **E-Mail**

I will respond to e-mail within 24 hours unless it is a travel week or long-weekend

### **Attendance Policy**

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

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

Absences due to illness require a note from the CIMBA Undergraduate Office 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.

### **Grievance Policy**

Student concerns regarding this course should first be discussed with me. If we cannot resolve the complaint, You may contact the CIMBA Director, Brandelle Unkrich (319-335-1041, brandelle-unkrich@uiowa.edu ). The Director will review the details of the complaint and involve the Associate Dean of the Undergraduate Programs, as needed.

### **Academic Misconduct**

The Tippie School of Business at the University of Iowa follows an honor code regarding academic misconduct. That code can be found at <http://tippie.uiowa.edu/honorcode.cfm> and includes cheating, plagiarism, unauthorized collaboration, obtaining an unfair advantage, forgery, facilitating academic dishonesty, and misrepresentation. Be sure you are familiar with this code. Students who exhibit academic dishonesty will receive a zero (0) for the assignment or examination involved and may receive an “F” for the class. All incidents of cheating will be reported to the CIMBA staff, as well as to the Senior appealed to a Judicial Board. The Honor Code for the Tippie College of Business will determine the appropriate appeal process.

### **Accommodating Students with Disabilities/ Academic Accommodations**

A student seeking academic accommodations such as a modification of seating, testing, timing, etc. should first register with Student Disability Services, then contact Shannon Lizakowski (shannon-lizakowski@uiowa.edu) in the CIMBA Office to make further arrangements. See <http://sds.studentlife.uiowa.edu> for more information.

### **Sexual Harassment**

Sexual Harassment subverts the mission of the University and threatens the well-being of students, faculty and staff. All members of the UI community have a responsibility to uphold this mission and to contribute to a safe environment that enhances learning. Incidents of sexual harassment should be reported immediately. 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.

## MONEY AND BANKING SYLLABUS

### Course Outline Money and Banking ECON:3335 Spring, 2016

Class session	Topics	Assignments
1.	Brief overview of EU and Euro area Review of Macro-Econ	Chapters 1&2 Bloomberg
2.	The dual mandate plus discussion of What is money?	Chapter 3&10 Bloomberg
3.	Money and Capital Markets	Read Chapter 4 Bloomberg
4.	Understanding Interest rates Present value future value	Read Chapter 5 Bloomberg
5.	Risk in Financial instruments	Read Chapter 6 Bloomberg
6.	Bonds and bond prices	Read Chapter 7 Bloomberg
7.	Risk and term structure of interest rates	Review for test
8.	Test (Chapters 1-7&10 plus outside reading)	Chapter 12 Plus bank project
9.	Bank balance sheets and management	Chapter 13 Bloomberg
10.	Risk in Banking	Chapter 14 Bloomberg
11.	U.S. banking structure vs. Canada & Britain	Chapter 14 Bloomberg
12.	Bank Regulation Dodd-Frank and Basel	Review for test
13.	Test 2 (chapters 12-14 )	Chapter 15 Bloomberg
14.	Structure of Central Banks and the Fed	Chapter 16 Bloomberg
15.	Old and new tools in Central Banking And how they are supposed to work	Chapter 17 Bloomberg
16.	Central Bank Independence and pending Congressional legislation	Chapter 18 Bloomberg
17.	The Taylor Rule and Fed policy	Review Chapters 15-18
18.	Review for Exam (Answer questions about team presentations)	
19.	Team presentation	
20.	Team presentation	
21.	Final Examination Chapters 1-7, 12-14, 15-18 (April 6-8)	