



Money Banking and Financial Markets: ECON: 3335^{*,**}

Spring 2017

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INTRODUCTION:

Benvenuto! Welcome to Money, Banking and Financial Markets, Economics 3335. This course should be important in helping you to understand banking, the central banks (such as the Federal Reserve) and the impact on financial and economic markets. In addition, it should help in your personal life as you make decisions about consumption, saving and investing for the future, as well as you in your professional life.

The last three or four decades have seen a remarkable evolution in the institutions that comprise the modern monetary system. The financial crisis of 2007-2009 illustrated that we need a similar evolution in the analytical theories to understand the system. This course is an attempt to begin the process of new economic thinking by reviving and updating some forgotten traditions in monetary thought that have become newly relevant. Features of the new system are: The intertwining of previously separate capital markets and money markets which has produced a system with new dynamics and vulnerabilities. The financial crisis revealed those vulnerabilities. The result was years of desperate innovation by central banks in an effort to stem the collapse. Second, the global character of the crisis has revealed the global nature of the system, which is something new in postwar history. Central bank cooperation was key to stemming the collapse. Third, at the heart of the crisis was the operation of key derivative contracts, most importantly credit default swaps (CDS) and foreign exchange swaps. Hence, modern monetary theory cannot be understood separately from modern finance, nor can it be constructed separately from modern financial theory.

This is one of the most critical periods in history: The immigration crisis, many European banks are under-capitalized. Britain voted to leave the EU (Brexit) and others are considering leaving

* Thanks are in order to previous Professors who developed earlier versions of Money and Banking courses from whom I borrowed generously. In particular Professors Dennis M. O'Toole, Bruce Kline & Perry G Mehrling.

** The syllabus is provisional and will be modified as events unfold in the US and in the world.

e.g. Greece. The EU economy has experienced modest growth in spite of lower oil prices and quantitative easing by the Central Bank. The pound has weakened against the dollar significantly after the Brexit vote – by about 20 %. The euro has also weakened against the dollar. The slower economic growth also has implications for European banks and European monetary policy. Currently, the United States is seven years into its recovery from the longest and deepest recession since the 1930s Depression. The Great Recession was due, partly, to a breakdown in domestic and global financial markets. In the United States the Federal Reserve has played a significant role in bringing the economy back from the abyss. With the new President, the economic future is uncertain. As of the writing of this syllabus, his policies have not yet been articulated in any detail. (The Federal Reserve is independent of the Executive, and thus, can set its own course; although it is subject to outside pressures.) Changes in the United States economy have global implications, both for the strength of the dollar and the economic health of many countries around the world.

In addition to the traditional money and banking institutions and theories, we will also examine the impact of new media of exchange such as Apple and Google pay; Kenya's Safaricom's M-Pesa, and crypto-currencies such as Bitcoin. To the extent they have no central control, they could have a significant impact that has not yet been accounted for in the monetary system.

During the course of the semester, we 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. For example, 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 the assigned websites. I will be 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 office hours are after class from 1:00 to 3:00 PM.

COURSE OBJECTIVE

The main objective is to understand the role of money, banking and interest rates in business (and in your personal life). The Course is divided into three parts. Part 1 will quickly review the four goals of every economy and define 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. We will look into 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 Fed Statements. The team presentation will address the question "What will the Fed do with Monetary policy at its spring 2017 Federal Open Market Committee (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, McGraw-Hill Education, Fourth Edition.

We will use various websites to supplement the text such as:

<https://fred.stlouisfed.org>

<http://www.bloomberg.com/europe>; <http://federalreserveonline.org/>;

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

POLICIES AND PROCEDURES:

Grading Policy: Exam questions will be drawn from both the textbook and class lectures, which may include outside material. Make up exams will not be given without the instructor's prior consent. A doctor's note will be required if an exam is missed due to illness. Failure to take an exam will result in a grade of zero (0) on that exam. Exams will be a mixture of objective and subjective questions.

Weight Grading Scale

Cases	15%		A	94 - 100%		C +	74 – 76%
Exam I	25%		A -	90 - 93%		C -	70 – 73%
Exam II	25%		B +	87- 89 %		D +	67 – 69%
Final	25%		B	84 - 86%		D	64 - 66%
HW/Quizzes	10%		B -	80 - 83%		D -	60 -63%
						F	Below 60%

The Final grade will use plus and minus grading. Course grades will be approximately distributed according to the recommended guidelines of the Tippie College of Business at the University of Iowa, which is 30% A's, 40% B's, 25% C's and 5% D's. These are only guidelines.

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 Tests: The first test will be given in Session 8. The second test will be given in Session 13. The final examination will be given between 5 April and 7 April. The actual date of the final is determined by CIMBA. The team presentation will be made on the last 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:

- First absence will result in a loss of 1/3 of a letter grade in that class,
- Second (cumulative) absence will result in a loss of an entire letter grade in that class,
- Third (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.

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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 (319335-1041, 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 appealed to a Judicial Board. The Honor Code for the Tippie College of Business will determine the appropriate appeal process.

Students with Disabilities: 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, and to seek assistance from the CIMBA Director, Brandelle Unkrich, at 319-335-1041 or brandelle-unkrich@uiowa.edu.

Course Outline Money and Banking ECON: 3335, Spring 2017

Class session	Topics	Assignments
1	Brief overview of EU & Euro area; Review of Macro-economics	Chapters 1 & 2
2	What is money? The dual mandate	Chapter 3 & 10
3	Money & Capital Markets	Chapter 4
4	Understanding Interest rates, present value and future value	Chapter 5
5	Risks in financial instruments	Chapter 6
6	Bonds & bond prices	Chapter 7
7	Risk & term structure of interest rates	Review for test
8	Test (Chapter 1-7 and 10 plus outside readings)	Chapter 12
9	Bank balance sheets & management	Chapter 13
10	Risks in banking	Chapter 14
11	US banking structure versus Britain & Canada	Chapter 14
12	Bank regulation: Dodd-Frank & Basel; Review for test	
13	Test 2 (Chapters 12-14)	Chapter 15
14	Structure of Central Banks and Fed	Chapter 16
15	Old and new tools of Central Banking	Chapter 17
16	Central banks	Chapter 18
17	Taylor Rule & Fed policy	Review Chapters 15-18
18	Review for exam (and answer questions regarding presentations)	
19	Team presentation	
20	Team presentation	
21	Final Examination (Chapters 1-7, 10, 12-18)	