

CIMBA

ITALY

MONEY BANKING AND FINANCIAL MARKETS

ECON:3335

Spring 2018

Instructor: Dr. Dennis M. O'Toole
E-Mail: dmotoole@vcu.edu

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, European Central Bank (ECB) and their impact on 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. Britain, which has served as the unofficial financial capital of the EU (and has the world's largest Foreign Exchange Market), has voted to leave the EU (Brexit) by March 2019. Currently, the EU Economy is growing at about the same 2% rate as the United States. The European unemployment rate has been falling. The euro has strengthened against the dollar by about 8% in the last 12 months (which is not good news from your point of view and we will find out why during the course), but consumer inflation is slightly lower in the EU (which is good news). The 2007-2009 recession (the worst recession since the "great Depression" in the 1930's) which was due partly to a breakdown in domestic and global financial markets is over in both the EU and the U.S.. The recovery from the recession has been slow but by the end of 2017 the job market has recovered and should have positive implications for your job prospects when you graduate. However, the Federal Reserve is in the process of raising short and long term interest rates 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 and the implications of the Trump Presidency. President Trump has nominated Jerome Powell as the new Chair of the Federal Reserve Board of Governors which goes into effect in early February 2018. In addition, he has already appointed one member (Randal Quarles) and has the opportunity to appoint three additional members of the 7 member Federal Reserve Board of Governors. 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 Tuesday, Wednesday and Thursday from 11am to 1pm. I am also available at other times by appointment.

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 and the deregulation of banking by the Trump administration.

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 12 -13, 2017 statement as well as the Fed Statements on January 30-31 and March 20-21 of 2018. The team presentation will address the question "What will the Fed do with Monetary policy at its May 1-2, 2018 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 February and the second test will be given on March , 2018. The final examination will be given on April 11 to April 13. 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. 1st absence will result in a loss of 1/3 of a letter grade in that class
- b. 2nd (cumulative) absence will result in a loss of an entire letter grade in that class
- c. 3rd (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, the faculty member teaching this course. If we cannot resolve the complaint, You may contact the CIMBA Interim Director, Stephanie Schnicker (319-355-1041, stephanie-schnicker@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 the CIMBA Italy Office (cimba-italy@uiowa.edu) to make further arrangements. See <http://sds.studentlife.uiowa.edu> for more information.

Sexual Harassment

The University will not tolerate sexual harassment, nor will it tolerate unwelcomed behavior of a sexual nature toward members of the University community when that behavior creates an intimidating or hostile environment for employment, education, on-campus living, or participation in a University activity. Incidents of sexual harassment should be reported immediately.

See the UI Comprehensive Guide on Sexual Harassment for assistance, definitions, and the full university policy: opsmanual.uiowa.edu/community-policies/sexual-harassment, and to seek assistance from the CIMBA Interim Director, Stephanie Schnicker, at 319-355-1041 or stephanie-schnicker@uiowa.edu. opsmanual.uiowa.edu/community-policies/sexual-harassment, and to seek assistance from the CIMBA Interim Director, Stephanie Schnicker, at 319-355-1041 or stephanie-schnicker@uiowa.edu. opsmanual.uiowa.edu/community-policies/sexual-harassment, and to seek assistance from the CIMBA Interim Director, Stephanie Schnicker, at 319-355-1041 or stephanie-schnicker@uiowa.edu.

MONEY AND BANKING SYLLABUS

Course Outline Money and Banking ECON:3335 Spring, 2018

Class session Topics Assignments

1. Brief overview of EU and Euro area Chapters 1&2

Review of Macro-Econ Bloomberg

2. The dual mandate plus discussion Chapter 3&10

of What is money? Bloomberg

3. Money and Capital Markets Read Chapter 4

Bloomberg

4. Understanding Interest rates Read Chapter 5

Present value future value 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. Test1 (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 Chapter 14

& Britain 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 Chapter 17

And how they are supposed to work Bloomberg

16. Central Bank Independence and pending Chapter 18

Congressional legislation 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 11-13)