

# ECON3335: Economics of Money, Banking & Fnc'l Mkts



## Consortium Institute of Management and Business Analysis Summer 2018

Instructor: **Bruce Kline**

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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 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.

### Grading

Microeconomics review – pre-test – 60 points

Interim Tests – 300 points (100 each)

Final – 200 points

Homework – 240 points (20 each)

Current topic – 200 points (100 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. You

may upload to ICON, or bring a hard-copy to class. 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). Papers will be due prior to the beginning of the class session assigned. (see schedule)  
I will provide an ICON dropbox.

## **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

This preliminary schedule is organized by week.

As the summer session proceeds, more detailed daily structure will be provided.

In general, please note that one of the homework problem sets will be due each day.

There will be a test at the end of the class day before the weekend.

The current topic papers will be due the first class day of the third and fourth weeks – you are aware of the deadline now. The papers are short. The wise choice is to complete them BEFORE leaving on a travel weekend. The timing is simply to give you some extra buffer.

<b>Class Session</b>	<b>Topics</b>	<b>Assignments</b>
Week 1	<b>Introductions</b> <b>Course Framework / Review</b> <b>Review Q&amp;A - 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>Microeconomics pre-test</b>  <b>Chapters 1 and 2</b> <b>Chapter 3</b> What is Money? <b>Chapter 4</b> Understanding Interest Rates <b>Chapter 5</b> The Behavior of Interest Rates <b>Chapter 6</b> The Risk and Term Structure of Interest Rates  <b>Test</b>	Problems 3-7, 3-12 Problems 4-17, 4-22 Problem 5-3, 5-11, 5-19, 5-21
Week 2	<b>Chapter 8 and 9</b> An Economic Analysis of Financial Structure Financial Crises <b>Chapter 10</b> Banking and the Management of Banking Institutions <b>Chapters 11 and 12</b> Economic Analysis of Financial Regulation Banking Industry: Structure and Competition  <b>Test</b>	Problems 6-8, 6-11, 6-17, 6-21 Problems 8-11, 8-12, 9-3, 9-12 Problems 10-3, 10-10, 10-11
		Current topic paper – interest rates and yield curves

Week 3	<b>Chapter 13</b> Central Banks and the Federal Reserve System <b>Chapter 14</b> The Money Supply Process <b>Chapter 15</b> Tools of Monetary Policy <b>Chapter 16 &amp; Appendix</b> The Conduct of Monetary Policy  <b>Test</b>	Problems 11-7, 11-19, 12-12, 12-13 Problems 13-1, 13-17, 13-23 Problems 14-5, 14-13, 14-16, 14-17 Problems 15-4, 15-6, 15-23
		Current topic – Central Bank crisis response
Week 4	<b>Chapter 17</b> The Foreign Exchange Market <b>Chapter 18</b> The International Financial System <b>Review</b>	Problems 16-2, 16-12, 16-24 Problems 17-10, 17-13, 17-19
	<b>Final Examination</b>	

## Course Policies

**Expectations:** Our expectations are that students will attend class meetings on a regular basis and will be well prepared for each class session. In particular, students should read the assigned readings and cases prior to each class session. In addition, it is important that students complete preparation work for any exercises or cases prior to class. Proper preparation will facilitate learning for everyone. Similarly, we expect students to treat each other, and us, courteously.

In return, you can expect us: to provide you with a classroom environment that is conducive to learning; be well organized and prepared for each class lecture and to facilitate assigned activities; provide an environment that is respectful of others' opinions; provide reasonable guidance on all assessments; and treat you fairly and courteously.

**Communication:** Please be aware that any announcements that impact the class schedule or assessments will be sent to your university email address (@uiowa.edu). We will also post important announcements on ICON. Please feel free to email us with questions or concerns about the course and/or any assignments. We will endeavor to reply to you within 24 hours. If you must miss a class for any reason, please let us know and we can discuss alternatives for making up the work.

**Accommodating Disabilities:** Students seeking classroom and/or exam accommodations should first register with Student Disability Services (SDS): <https://sds.studentlife.uiowa.edu/students/apply/>. The guide, "Assisting Students with Disabilities: A Guide for Instructors," provides additional background in assisting students: <https://diversity.uiowa.edu/policies/assisting-studentsdisabilities-guide-instructors>. Should you have questions or need assistance about working with students with disabilities, please contact SDS. You may also refer to the SDS website at <https://sds.studentlife.uiowa.edu/>.

**Academic Misconduct:** 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 identification number appears on the project, 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 Associate Dean for Undergraduate Programs (or the Associate Dean for the School of Management, as appropriate) and the student may be placed on disciplinary probation for the remainder of his or her enrollment at the University of Iowa. In general, the decision of the Professor may be appealed to a Judicial Board, then to the appropriate Associate Dean. The Honor Code for the Tippie College of Business (<http://tippie.uiowa.edu/honor-code.cfm>) will determine the appropriate appeal process.

**Grade Appeals:** 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 DEO of [Amy Colbert, [amy-colbert@uiowa.edu](mailto:amy-colbert@uiowa.edu), 319-335-0928]. If you cannot resolve the complaint by speaking with the DEO, you may contact the Colleen Downey, Assistant Dean of the MBA PM Program, 319-335-3730 [colleen-downie@uiowa.edu](mailto:colleen-downie@uiowa.edu)

**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: <https://opsmanual.uiowa.edu/community-policies/sexual-harassment>. Concerns regarding sexual harassment should be directed to the Office of the Sexual Misconduct Response Coordinator: <https://osmrc.uiowa.edu/policy>.

**Web Site:** <http://icon.uiowa.edu> I will be making extensive use of the ICON web site to communicate with you. I will be providing announcements, assignments, and other information on the above web site.

**Submitting Assignments:** All written assignments must be submitted as noted in this syllabus, which generally involves uploading to ICON either before or during the class period on their respective due dates. Late submission of assignments will incur a penalty of 10% per day and applies to each team member for team-based assignment