

ITHACA COLLEGE

Economics 32100-1: *Money and Banking*

Sec. #: 01

Term: Fall 2016

Class Time: TTH, 10:50 a.m. – 12:05 p.m.

Room: Dillingham 008

Office Hours: MW, 2:00–3:30 p.m. and by appointment

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Class website

<https://sakai.ithaca.edu>

I. REQUIRED TEXTBOOK AND MYECONLAB ONLINE HOMEWORK

Hubbard, R. Glenn and Anthony Patrick O'Brien, *Money, Banking, and the Financial System, 2nd Edition.* (Pearson)

ISBN #: 9780133021639

You have a few options for buying the necessary course materials:

- You can purchase a hardcopy version of the textbook from the Ithaca College bookstore (or the publisher's website or Amazon), that comes with an electronic access code for *MyEconLab*, the online homework tool required for the course. If you go for this option, be sure that your purchase comes with an access code for *MyEconLab*.
- You can purchase just the access code to *MyEconLab* by itself, with no hardcopy version of the textbook. This further comes in two different pricing options:
 - An access code to *MyEconLab* with full electronic access to the textbook costs \$119.95.
 - An access code to *MyEconLab* with no electronic access to the textbook costs \$65.00.
- You may also choose to buy a used hardcopy of the textbook at Amazon or other online stores and combine it with an electronic access code to *MyEconLab*.

IMPORTANT: Once you have purchased access to *MyEconLab*, you must register for this specific course site. Please follow the set of instructions under the announcements tab in the Sakai course site. Note that the course ID is **amri97472**.

II. COURSE DESCRIPTION

This course will discuss financial markets (e.g., bonds, stocks, foreign exchange) and financial intermediaries (banks and non-bank financial institutions), as well as the evolving role of money, credit, and interest rates in the economy. We also discuss the role of the Federal Reserve system in regulating banking and money policies. Throughout the course, we will examine case studies of varying aspects of the 2007-09 financial crisis.

Pre-requisites and beyond: The pre-requisites for this course are: Econ 12200 (Principles of Microeconomics), and Econ 12100 (Principles of Macroeconomics), and two courses in humanities, social science or business. Money and Banking is a required course for economics majors and it also serves as a pre-requisite for Econ 32200 (Monetary Theory and Policy).

III. COURSE OBJECTIVES

- Understand the differences between types of financial assets such as money, bonds, stocks/equities, securitized loans, and foreign exchange.
- Understand the role of interest rates as the central mechanism that connects borrowers and savers across different times.
- Understand the asymmetric information problem and how it applies to the participants of the financial system.
- Evaluate the operations of private commercial banks and the contemporary role that they play in the conduct monetary policy.
- Explain what financial crises are in general and understand the specific features and causes of the U.S. financial crisis of 2007-2009.

IV. ASSESSMENT

The following items will be used to assess mastery of course content.

A. Tests: There will be four tests throughout the semester. The materials covered in test 2 will also include materials covered in test 1. The materials covered in test 4 (the final exam) will also include materials from test 3. With the exception of the final exam, each test will be 45 minutes long. The final exam will be 2.5 hours long. The intended examination dates are:

Test 1: September 22, 2016

Test 2: October 11, 2016

Test 3: November 17, 2016

Test 4 (Final Exam): December 13 (4:30-7:00 p.m.)

Exams are closed-book and will likely be a combination of: a) short answers/identifications, b) calculations and/or problem solving questions, and c) both short answer and calculations in the form of multiple-choice questions. Calculators are permitted during exams, while cellphones are strictly forbidden.

Exam rescheduling policy: No make up/rescheduled test will be given unless there is a valid excuse (e.g., serious injury/illness with doctor's letter, death in the immediate family, a religious observance, university approved activities, or jury duty) with appropriate documentation and sufficient notification to the instructor ahead of time.

B. Homework (Online through MyEconLab):

Every MyEconLab homework assigned will be due on Monday evening at 11:30 p.m. I will make an announcement on Sakai whenever a new MyEconLab assignment is made available. Be sure to register for the specific MyEconLab for this money and banking class, as per the instructions on the Sakai. No extensions on these weekly assignments will be given, however I do drop the two lowest scores from your class grade calculation.

C. Podcast and data assignments: There will be a total of 3 of such assignments throughout the semester. They will involve listening to podcasts and answering relevant questions as well as collecting and analyzing macroeconomic and financial data relevant to understanding contemporary events in money and banking. The first podcast assignment is due on September 6, 2016. Due dates and details of all remaining assignments under this category will be announced via Sakai.

D. Case study presentations (in groups): For selected topics throughout the course, students in groups of 2-3 will take turns presenting an assigned case study. Students assigned to present will read 1-2 short articles based on a specific case and answer questions based on the readings assigned. All other students are asked to participate and ask questions to the presenters. A sign-up sheet for the topics will be distributed early on in the semester.

E. In class practice questions. From time to time, students will turn in written answers to short problems and calculations assigned during class. The goal of these questions is to practice your skills and ability to solve numerical and analytical questions in money and banking.

F. Concept “check-ins.” These are short-answer questions which I will *regularly* distribute via Sakai before class throughout the semester, before starting a new chapter. The point of these is to check that students have familiarized themselves with basic concepts from the textbook, with the goal of freeing up more time during class for discussion and highlighting possible areas of confusions or misunderstandings. They will be graded on a “satisfactory, unsatisfactory, no credit” basis. These are easy points.

G. Calculating your course grade. Your course grade will be a weighted average of the following components:

- Online homework with *MyEconLab* (15%)
- Writing and data assignments (10%)
- Case study presentations and discussions (10%)
- In class practice questions and concept check-ins (5%)
- Tests (60%). The remaining 60% of the class will be based on the 4 in class tests. Each test is weighted equally.

V. GRADING SCALE

The following scale will apply in converting your numeric course grade to a letter grade: 93–100 (A), 90–92 (A–), 87–89 (B+), 83–86 (B), 80–82 (B–), 77–79 (C+), 73–76 (C), 70–72 (C–), 60–69 (D), and <60 (F).

VI. ATTENDANCE REQUIREMENTS AND WITHDRAWAL POLICY

Students are expected to attend all class meetings. Continuity of attendance is necessary to individual progress in any class. Class attendance and lecture notes are not perfect substitutes. If you did not attend class during which an in-class practice question or concept check-ins was assigned, you will earn zero credit for that missed class.

The instructor is not responsible for dropping enrolled students. Should you decide later on to drop or withdraw please do so within the university-set deadlines.

VII. STATEMENT OF STUDENT CONDUCT

Classroom behavior: Students and faculty each have responsibility for maintaining an appropriate learning environment. Students will treat one another with respect and courtesy. I will ask disruptive students to leave the class.

Students are advised to consult the *Student Conduct Code* and the *Standards for Academic Conduct* sub-sections of the Ithaca College *Student Handbook*.

In particular, please note the following policies:

A. Academic conduct, cheating, plagiarism: All forms of academic dishonesty will be taken very seriously. All such behavior will be reported to the dean and can have serious consequences. Your submission to the writing and data assignments are to be single-authored projects – you are expected to be working alone. Student papers that are highly similar to each other will both receive a grade of zero. If you are not sure what constitutes academic dishonesty, refer to the Standards for Academic Conduct section (section 7.1.4) of the Ithaca College Student Handbook.

B. Tardiness. Students who come late or have to leave early are asked to enter the classroom in the least disruptive manner possible. This includes taking a seat as near the door as possible if you arrive late. Students who systematically arrive late to class will be asked to provide an explanation to the instructor.

C. Cellphones & other technology: Students will turn off cell phones in class. The penalty for visible text messaging or audible phone rings is half a percentage point per offense. If this remains a problem, I reserve the right to change the policy to half a percentage point per offense for the entire class. Students are also forbidden from using laptops during class.

VIII. SPECIAL ACCOMMODATIONS

This class follows Ithaca College policies to accommodate students with special learning needs. Once provided with supporting documentation from the Student Accessibility Services (SAS), the instructor will provide accommodations in line with the regulations and practices outlined by the college. Students are responsible for filling-out any paper work necessary to receive accommodation.

IX. DISCLAIMER

All information in this syllabus is subject to change. Students will be notified ahead of time if and when any changes are made to course requirements or policies.

X. SCHEDULE AND TOPICS TO BE COVERED

This schedule is meant as a general outline of the course. It may be altered based on the pace of the class, additional topics (if any), or if certain topics require additional in class practice questions.

Week	Date	Topic and Required Reading
I. Introduction: Money, Financial Assets, and Interest Rates		
1	Aug 25 & 30	Introduction Chapter 1 (Introducing Money & the Financial System) <u>Supplemental reading:</u> Mulainathan, Sendil. (2015) “Why a Harvard Professor Has Mixed Feelings When Students Take Jobs in Finance.” <i>The New York Times</i> , April 10, 2015.
	Sept 1	CLASS CANCELLED, to be made up with a podcast assignment on Sakai Listen to the Podcast titled “The Week America’s Economy Almost Died” and read the New York Times article “Money Market Fund Breaks the Buck.” Due date: <u>September 6</u> .

2	Sep 6 & 8	Money and the Payments System Chapter 2 (Money and the Payments System)
3	Sept 13 & 15	Understanding Interest Rates and Present and Future Values Chapter 3 (Interest Rates and Rates of Return)
4	Sept 20	Chapter 3, continued
4	Sept 22	Test 1 (45 minutes) Supply and Demand in the Bond Market Chapter 4 (Determining Interest Rates)
II. FINANCIAL MARKETS: BONDS, STOCKS, AND FOREIGN EXCHANGE		
5	Sept 27 & 29	Supply and Demand in the Bond Market, continued Chapter 4 (Determining Interest Rates), continued
6	Oct 4 & 6	Understanding Credit Risk Premium and Term Risk Premium Chapter 5 (The Risk Structure and Term Structure of Interest Rates)
7	Oct 11	TEST 2
	Oct 13	NO CLASS - FALL BREAK
8	Oct 18	Stock Markets Chapter 6 (The Stock Market, Information, and Financial Market Efficiency)
9	Oct 20 & 25	The Foreign Exchange Market Chapter 8 (The Market for Foreign Exchange)
10	Oct 27	Credit Default Swaps and Other Financial Derivatives Chapter 7 (Derivatives and the Derivative Markets)
III. BANKING AND MONETARY POLICY		
11	Nov 1 & 3	Information Asymmetry & other problems in matching borrowers and savers Chapter 9 (Transaction Costs, Asymmetric Information)
12	Nov 8 & 10	The Economics of Banking Chapter 10 (The Economics of Banking) Leverage Chapter 11 (Investment Banks) Read Instructor's Handout on Leverage
13	Nov 15	The Federal Reserve and the money creation process Chapter 13 (The Federal Reserve and Central Banking) Chapter 14 (The Federal Reserve's Balance Sheet and the Money Supply Process)
13	November 17	Test 3
14	Nov 22 & 24	NO CLASS - THANKSGIVING HOLIDAY
15	Nov 29 & Dec 1	Monetary Policy and the Market for Reserves Chapter 15 (Monetary Policy)
16	Dec 6 & 8	Monetary Policy using the AS-AD Model Chapter 17 (Monetary Theory I: The Aggregate Demand and Aggregate Supply)
	Dec 13	FINAL EXAM (Time: 4:30 pm – 7:00 pm)