Syllabus

Economics 411/511 (4/5111)
Money and Banking
Fall 1988

Prof. Richard Sullivan
4A Economics Building
Office Hours:
9:30-10:30, TTh

Introduction

This course offers a description of the banking industry and its relation to financial markets and government. We will first look at why people hold money as opposed to other financial assets (the theory of asset demand and interest rates). We will then detail the banking industry and bank management. We go on to develop a theory of how the money supply is determined, and will find that government and banks interact in the money supply process. But it is the government that ultimately determines the money supply, and we will conclude the course by seeking an understanding of the best way to manage the money supply to get superior performance in the economy.

The specific objectives of the class are for you to:
- apply present value formulas to a variety of loan arrangements
- gain an appreciation of why individuals hold assets, including money
- understand the behavior of interest rates
- know the components of bank balance sheets and principles of bank management
- be aware of the regulatory structure of banking and the effects of regulation on bank management and performance
- gain a firm grasp of what the money supply is and how money is created
- understand the Federal Reserve Bank structure and its policy making apparatus
- apply principles of macroeconomics to the operation of monetary policy

Banking is a dynamic, changing industry that continually adapts to new circumstances, a process called financial innovation. I encourage you to read about banking and monetary policy in the financial press (Wall Street Journal, Business Week, etc.) and ask questions about these current events in class.

Course Materials

There is one required text: Frederic S. Mishkin, The Economics of Money, Banking, and Financial Markets, Boston: Little, Brown and Co., 1986. There will be some additional reading material on reserve at the Norlin Library.

Course Requirements

Grades will be determined by your performance on a written exercise, two midterm exams, homework, and a final. Weights for these assignments are:
Written exercise 10%
Midterm I 20%
Midterm II 20%
Homework 10%
Final 40%

Exams will be a combination of multiple choice and problem/essay questions. The final exam will be comprehensive. Copies of past exams are on reserve at the Norlin Library. Homework will be taken from the questions at the end of each chapter with additional assignments distributed in class. If you are taking the course for graduate credit (511) please see me for additional required assignments.

The written exercise is a four page (typed) critical discussion of some aspect of financial intermediation in the United States. For example, you may wish to write a critical review of an article in FORTUNE, the NY Times, Wall Street Journal, etc. (A critical review may, of course, be favorable or unfavorable). Your review should identify both strong and weak points to the argument. Both content and style will be graded on your written exercise. The report is due Friday, Dec. 2.

You are responsible for all material covered in reading assignments. Lectures will cover the more difficult material in the textbook.

No Make-Up Exams or Homework will be allowed. If you miss the midterm and have a legitimate excuse, the weight on the final exam will be increased accordingly. You must inform me prior to a midterm in order to obtain an excused absence. Students who miss a midterm without an excused absence will receive a grade of zero.

The drop date this semester is October 4, 1988. If you have done all course work up to that date, you may withdraw from the course with a "W". Otherwise I will not authorize a withdrawal under any circumstances. I will consider incomplete grades only in cases of extreme hardship AND where you have completed all work in the course with an average grade of "C" or better. If your grade average is below a "C", I will not give an incomplete grade under any circumstances.

COURSE OUTLINE

I. Introduction
II. Interest rates, asset demand, and efficiency of capital markets
III. The banking industry and bank regulation
IV. The money supply
V. The Federal Reserve Bank and monetary policy

READING ASSIGNMENTS

Chapters 1, 2 & 3
Chapt. 4-7, & 26
Chapts. 8-10
and classroom material
Chapts. 12-15
Chapts. 16-19, & 23