MONEY AND BANKING

ECONOMICS 4111
SECTION 2
SPRING 1990
CLASS HRS:
  3:30-4:45 Tu/Thr
ROOM: Econ 13

THOMAS CARR
OFFICE: Econ 4A
OFFICE HRS:
  M 12-1
  Tu 2:30-3:30
  W 2-3

SUBJECT

This course examines the role of financial markets, banking, and money in the economy. The first section of the course addresses the fundamentals of financial markets. Special attention is devoted to the behavior of interest rates, risk, yield curves, and the efficiency of financial markets. The second section focuses on a number of important issues currently facing the banking industry. These topics include the deregulation of branch restrictions, the separation of commerical and investment banking, deposit insurance, the savings and loan crisis, third world debt, financial innovation, and developments in international banking. The third section of the course deals with the macroeconomic issues of money. This final segment looks at key contributions to monetary theory, the determinants of the money supply, the structure of the Federal Reserve, and the implementation of monetary policy.

READINGS

2) Readings package at Kinko's On the Hill, 1313 College.

GRADES

The course grade will be based on three exams corresponding to the three sections in the course. Each exam will be weighted 1/3 of the final grade. In borderline cases, factors such as class participation, motivation, and upward progress are considered. Bring bluebooks for exams.
OUTLINE

Introduction
* Mishkin, Chap. 1

I. FINANCIAL MARKETS

A. Money
* Mishkin, Chap. 2

B. Overview of Financial Markets
* Mishkin, Chap. 3
* Malkiel, A Random Walk Down Wall Street

C. Interest Rates
1. Bonds and interest rates
   * Mishkin, Chap. 4
   * R1: Cook, "Treasury Bills"
2. Portfolio theory
   * Mishkin, Chap. 5
3. Interest rate theory
   * Mishkin, Chap. 6
4. Risk structure
   * Mishkin, Chap. 7, p. 138-146
5. Term structure and the yield curve
   * Mishkin, Chap. 7, p. 147-156
   * R2: Garner, "The Yield Curve and Inflation Expectations"

D. Efficiency of Financial Markets
1. Speculation
   * Malkiel, A Random Walk Down Wall Street
2. Expectation theory
3. Theory of efficient capital markets
   * Mishkin, Chap. 25
4. Stock market applications
   * R3: Pearce, "Challenges to the Concept of Stock Market Efficiency"
   * R4: Sease-WSJ, "Balance of Power: Program Trading War"
   * R5: New York Times, "Don't Blame Program Trading"
5. Debt finance applications
   * R6: The Economist, "America's Third Debt Bubble"
   * R7: Winkler-WSJ, "Junk Bonds Are Taking Their Lumps"
   * R9: Bartlett-NYT, "Cracks In The House That Debt Built"

+++ Midterm I +++
Thursday, Feb. 22
II. BANKING

A. The Banking Firm  
* Miskhin, Chap. 8.

B. History of Banking and Regulation  
* R10: Horvitz, "Development of American Commercial Banking"  
  * Miskhin, Chap. 9

C. Current Banking Issues  
1. Branch banking and super regionals  
   * R11: The Economist, "International Banking Survey: America the Laboratory"

2. Separation of commercial and investment banking  
   * R12: Cargill, "Glass-Steagall Is Still Needed"  
   * R13: Guenther-WSJ "Breaking Barriers: Bankers Trust Leads Way for Major Banks in Investment Banking"  
   * R14: Winkler-WSJ "Banks Make Wrong Turn On Wall Street"  
   * R15: Salwen-WSJ "Glass-Steagall Change Before 1991 Doubtful"

3. Deposit insurance and the FDIC  
   * R16: Clark-WSJ "Perils of Insuring Bank Deposits"  
   * R17: The Economist, "FDIC: Banking On It"  
   * R18: Tobin-WSJ, "Deposit Insurance Must Go"  
   * R19: Nash-NYT, "Concern Grows on FDIC Power"

4. The savings and loan crisis  
   * R20: Business Week, "The S&L Mess"  
   * R21: Jackson-WSJ, "Sleeping Watchdog: How Regulatory Error Led to the Disaster at Lincoln Savings"  
   * R22: Hershey-NYT, "Bush Signs Savings and Loan Bill"  
   * R23: Stevenson-NYT, "Savings Industry's New Curbs"

5. Third world debt  
   * R24: Sachs, "The Debt Crisis at a Turning Point"  
   * R25: The Economist, "Of Debt and Democracy"  
   * R26: Kilborn-NYT, "Debt Reduction: Ways to Do It"  
   * R27: The Economist, "Brady's Mexican Hat-Trick"  
   * R28: Farnsworth-NYT, "U.S. Falls Short On Its Debt Plan for the Third World"

6. Financial innovation  
   * R29: Simpson, "Developments in the U.S. Financial System Since the Mid-1970s"  
   * R30: Quint-NYT, "Eliminating Risk of Rising Rates"

7. International banking  
   * R31: Forman-WSJ, "Future Shock: Banks Face Shakeout As Europe Prepares for Unified Market"  
   * R32: Greenhouse-NYT, "Europe's Economic Split"  
   * R33: Guenther, Sesit-WSJ "Credit Siege: U.S. Banks Are Losing Business to Japanese"  
   * R34: Weisman-NYT, "Banks in Japan Plan Merger to Cope with a New World"

+++ Midterm II +++  
Tuesday, April 10
III. MONEY AND THE ECONOMY

A. Monetary Theory
   1. Money demand
      * Mishkin, Chap. 19
   2. Money and income: IS-LM model
      * Mishkin, Chaps. 20, 21
   3. Money and prices: AS-AD model
      * Mishkin, Chap. 22
      * R35: Friedman, B.M. "Lessons of Monetary Policy from the 1980s"
      * R36: Kilborn-NYT, "Federal Reserve Sees a Way to Gauge Long-run Inflation"

B. Money Supply
   * Mishkin, Chap. 12, 13, 14

C. Federal Reserve System
   * Mishkin, Chap. 15
   * R37: Clark-WSJ, "Remaking the Fed: Maybe It's Time"
   * R38: New York Times, "How Much to Fence In the Fed"

D. Monetary Policy
   * Mishkin, Chap. 18
   * R39: BusinessWeek, "Inside the Fed"
   * R40: Murray, A. "Is Fed's Greenspan Cautious to a Fault?"

+++ FINAL EXAM +++
Saturday May 12, 1990
7:30 am to 10:30 am