Money and Banking

Summer 1997
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Office Hours: any day after class, or by appointment.

The course title of Money and Banking is traditional but a more accurate title would be Financial Intermediaries. Historically, banks, savings and loans and other depository institutions have taken in deposits and loaned out their reserves. With the sweeping changes occurring in this industry the difference between banks and other financial intermediaries is quickly dissipating. Today, banks are involved in mutual funds, often use assets to buy government debt, and are increasingly ignored by corporations for financing. Large businesses increasing rely on the debt and equity markets to raise money, and depend less on the banks.

Financial intermediaries are defined as institutions and markets which link together the needs of lenders and borrowers. This includes stock, bond and international markets, as well as the usual banking system. As a result this course will take a thorough look at each as well as the role of central banks (e.g. the Federal Reserve Board) in regulation and influence of economic conditions.

The student should expect to gain an understanding of the following topics (plus a few more not listed):

- Business cycles.
- Stock (equity) markets
- Bond (debt) markets.
- International currency markets.
- The effect of currency valuations on domestic and foreign equity and debt markets.
- The effect of current and expected economic conditions on domestic and foreign equity and debt markets.
- Interest rates and their determination
- Banking institutions, history, current and future reforms and the consequences.
- Regulation and legal environment of the banking system. Savings and loan crisis.
- Central Banks - policy, goals, influence on economic conditions, as well as their influence on items 1) through 7) above.
- The potential effect of the Internet and telecommunications on finance.
- Selected current events

Text:

Money the Financial System and the Economy. First (or updated) edition (1994-95), by Hubbard (Addison Wesley)

Recommended Readings

The Wall Street Journal.

Grading:

There will be 2 exams, each counting for 50% of the grade. Classroom participation in the discussion of course topics and current events is highly encouraged. Although not directly counted in the grade, students who participate and contribute may have their final grade improved. For example, a person with an B+ average could
be bumped up to an A if they have regularly attended class and contributed to the class discussion.

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<th>I.</th>
<th>Business Cycles</th>
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| II. | The Financial Structure | ○ Chapter 1 & 2  
○ Chapter 3 |
| III. | Interest Rates | Chapters 4, 5, 7 |
| IV. | Depository Institutions | Chapters 12 - 15 |
| V. | International Banking and Exchange Rates | Web Topic 2  
Chapters 8, 16 & 22 |
| VI. | The Fed and Monetary Policy | Web Topic 3  
○ Chapters 17 & 18  
○ Chapter 23  
○ Chapters 19 - 21 |
| VII. | Equity and Debt Markets | ○ Chapter 6  
○ Chapter 9  
○ Chapters 10, 11 |

Examination #1: Wednesday, July 23

Examination #2: Friday, August 8