MONEY AND BANKING  
ECON 4111-01

ECONOMICS 4111-01: Spring 1998  
Office: ECON 106
M-W-F: 1:00-1:50
In: EKLC E1820
Phone: 492-8872

Professor: M. Akacem  
Office Hours:
M-W: 12:00-12:55

IMPORTANT NOTE: PLEASE READ THE SYLLABUS CAREFULLY. A NUMBER OF THE QUESTIONS THAT YOU MAY HAVE ABOUT THE COURSE ARE ANSWERED IN IT. IT ALSO PROVIDES YOU WITH A GOOD GUIDE TO THE PROGRESS OF THE COURSE AS WELL AS THE CHAPTER ASSIGNMENTS, TENTATIVE EXAM DATES ETC... TO MAKE THE SYLLABUS USER FRIENDLY, THE SEMESTER IS BROKEN INTO WEEKS, EACH WITH A TOPIC, CHAPTER NUMBER(S) AND PAGE. YOU WILL ALSO FIND OTHER RELEVANT INFORMATION ON EXAMS, GRADING AND GUEST LECTURES. MAKE SURE YOU CHECK THE DROP DATES IN THE SPRING CATALOGUE.

OBJECTIVE OF THE COURSE:

The main objective of this Money and Banking course is to teach you the fundamentals but then go far beyond them by applying the theory to what is taking place in the U.S. and overseas. The assigned text is your standard source for most of the material covered in class, but sometimes lectures will go beyond the text. You are expected to be prepared for each lecture by reading ahead of time. We will try to apply what we know and use a lot of examples from current financial and banking developments in the U.S. and other countries such as the Asian Currency turmoil. Toward this end, reading *The Wall Street Journal* is extremely important. Do not wait for me to assign an article. You need to read it on a daily basis. I will often start a class discussion around an article published in *The Wall Street Journal*. I will try to keep you informed as to which articles I think are relevant to our class discussion throughout the semester. This will be done both in class as well as through Ecolink, our class listserv.

Overall, the course will cover the relevant issues in the money and banking field, with an emphasis on institutions, policy and markets. The course assumes that you are already well versed in Macroeconomics. However, this course is not meant to be a re-hash of upper division Macroeconomics. Check the pre-requisites for taking this course. Part of the course will be spent discussing banking regulation and its impact on the banking industry. Should we continue to separate banks from commerce? Did we learn something from the Banking and Savings and Loans crisis? What are the policy implications for the U.S.' Financial system. The course will also examine the proposals of Market Value Accounting for financial institutions. We will also discuss the U.S. treasury's proposal to reform the U.S. banking system and the likely impact the reforms will have on the U.S. financial system. Should Deposit Insurance be scrapped for example? We will also be discussing the role of monetary policy, and that of the Federal Reserve and their impact on the U.S. banks and the economy in general. Finally, we will cover exchange rates and the Federal Reserve's role, if any.

Towards the end of the semester and if time permits, we will try to cover topics on the European Monetary Union. Throughout the course, we will be referring and using not only the main text but also articles from the Congressional Research Service, the Board of Governors of the Federal Reserve and the other regional Federal Reserves. Finally, I highly encourage you to visit the different sites of the different Federal Reserve banks. You will be surprised at how much information you will find. It will complement the class lectures nicely with up to date information.
Professor Akacem: Econ 4111-01: Syllabus: page two:

GUEST LECTURES FROM EXPERTS IN THE FIELD:

Finally, one unique and important aspect of this course is the use of outside speakers. A tentative plan at this point is to have four of them. One will be from the Federal Reserve Bank of Kansas City on Bank Examination by the head of the Examination Department. Another will be on the Futures' Market by a leading expert in the field and the owner of a futures' trading firm in Denver. Finally, one lecture will also be arranged on the Securities and Exchange Commission to be given by a retired senior staff person with over 30 years experience with the SEC. If time allows, I will try to arrange for at least one more guest lecture from outside experts so that the class can have a balance between lectures and real world applications from experts in the field. Attendance is MANDATORY. You should expect one short question on the exam from each one of the guest lectures. During the fall of 1998, we had one guest lecture on Bank Examination by the head of the examination department of the Federal Reserve Bank of Kansas City as well as a lecture on the Securities and Exchange Commission. Both were a great success.


2. Material on Reserve at the Library:

I will have some articles from The Wall Street Journal on special topics and material from the Congressional Research Service, and the different regional Federal Reserve Banks as well as other published articles on banking at the Reserve library. Some of the material will be distributed in class, however. This material is in addition to the main text. I highly recommend you read it, PARTICULARLY when it is assigned for the exams.

3. READING OF THE WALL STREET JOURNAL IS A MUST:

I will pass the subscription forms in class. Articles from The Wall Street Journal will be assigned throughout the semester. However, if you cannot afford a subscription to the Journal, you can always have access to it in Norlin Library.

NOTE: Once you subscribe to The Wall Street Journal, you will automatically have access to the Interactive Edition giving access to Barron's, Smart Money, The Asian Wall Street Journal and The European Wall Street Journal.

4. TENTATIVE COURSE OUTLINE

<table>
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<tr>
<th>Week One: 01-12 to 01-16</th>
<th>Introduction: Chapters 1,2 and 3 OUTLINE NUMBER ONE</th>
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<td>Week Two: 01-19 to 01-23</td>
<td>Chapters: 1,2 and 3 Continued OUTLINE NUMBER ONE (continued)</td>
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Week Three: 01-26 to 01-30  Finish OUTLINE NUMBER ONE and start on:
The Banking Industry
Chapters: 1 and 2 from Kenneth Spong's book (On Reserve)
Chapter: 14 and 15 from the main Text and part of 13
OUTLINE NUMBER TWO

Week Four: 02-2 to 02-06  The Banking Industry Continued: same as week Three
OUTLINE NUMBER TWO CONTINUED
Optional: “Lessons for The Regulation of financial Institutions” by Lawrence White, In Dimitris Vittas et. ON RESERVE.

TENTATIVE1 AND SUBJECT TO CHANGE: FIRST GUEST LECTURE ON BANK EXAMINATION
BY: The head of Bank Examination, Federal Reserve Bank of Kansas City, Denver Branch.

Week Five: 02-9 to 02-13  Finish OUTLINE NUMBER TWO and start on:
The S & L crisis, Handout from the Forbes Encyclopedia of Economics and review of Tapes. Time permitting, we may be able to see both of them. Expect one or two short questions from the case study.
OUTLINE NUMBER THREE

NOTE: EXPECT THE FIRST EXAM EITHER THIS WEEK OR NEXT

Week Six: 02-16 to 02-20  The Federal Reserve System and Money Creation
Chapters 19 and 17
OUTLINE NUMBER FOUR

Week Seven: 02-23 to 02-27  Chapters: 19 and 17 Continued, same page numbers
Same outline number as in week six

Week Eight: 03-2 to 03-6  Chapters: 18, 20 and 21
Budget Deficits and Monetary Base, Goals and tools of Monetary Policy, Targets and Instruments of Monetary Policy
OUTLINE NUMBER FIVE

Optional reading: The Money Market by Marcia Stigum, Dow Jones irwin, Chapter, 9 (The Most Watched Player, The Fed) to be found in the library possibly under the reference section and “Instruments of The Money Market” chapters 1 to 3 by Timothy Cook and Robert laRoche, Federal Reserve Bank of Richmond (will be put on reserve). U.S. Monetary Policy: An Introduction, Federal Reserve Bank of San Francisco, 1995 (will be left on reserve).

SECOND GUEST LECTURE ON THE FEDERAL RESERVE: By: Mr. Gordon Graig, Federal Reserve Bank of Kansas City. This is VERY tentative at this time. Alternatively, we can visit the Denver Branch of the Federal Reserve Bank of Kansas City. Also, this lecture may be moved up depending of the pace of the class.

1The guest lectures timetable may change somewhat if the guest speaker is unable to come due to travel or other last minute scheduling conflict. I will announce any changes as soon as I know about them. Your presence and regular attendance is thus paramount.
Week Nine: 03-9 to 03-13 OUTLINE NUMBER FIVE CONTINUED

Week Ten: 03-16 to 03-20 OUTLINE NUMBER FIVE CONTINUED

SECOND EXAM THIS WEEK OR NEXT

Week Eleven: 03-23 to 03-27 SPRING BREAK

Week Twelve: 03-30 to 04-3 Chapters 8 and 22
Exchange Rates and the U.S. Economy, Monetary Policy and exchange rates and the European Monetary Union.

OUTLINE NUMBER SIX

Week Thirteen: 04-6 to 04-10 OUTLINE NUMBER SIX CONTINUED

Week Fourteen: 04-13 to 04-17 Lecture material and handouts
Secondary Debt Markets, Debt Conversion and Implication To Banks. Lecture.

OUTLINE NUMBER SEVEN

THIRD AND FOURTH GUEST LECTURES: 1. The Securities and Exchange Commission and 2. The Futures Market by Mr. Brian Roche. The second lecture may spill over into week thirteen.

OUTLINE NUMBER SEVEN AND GUEST LECTURES CONTINUED

Week Fifteen: 04-20 to 04-24 Provided we are not behind on coverage of the material:
Stock Market Crash of 1929 and 1987, view Tape
No chapter assignment, Lecture and handouts

OUTLINE NUMBER EIGHT

If time permits, I may have someone from a brokerage house address the class on the stock market.

Week Sixteen: 04-27 to 05-4 Will review any outstanding material, handout review for the final exam and may cover additional material if time permits

Final Exam:
Saturday, May 9th, 1998 at:
7:00 pm till 10:30 pm in:
EKLC E 1 B 20
(same room as our class)
THE FINAL WILL BE GIVEN AT THE SCHEDULED TIME AND DATE.
NO MAKE UP FINAL WILL BE GIVEN

Important Note:
The above outline is tentative. The exact dates will, in all likelihood, change somewhat depending on the pace of the class and the scheduling of guest speakers as well as the viewing of cases studies in class. Any changes will be announced in class so your presence is a MUST.
NOTE: You will also be getting an outline for each lecture. This will help you follow the material covered in class. The outlines will be your guide as to material covered in class. Use them to study and find the material in the text and other sources.

5. GRADING:

You will have three exams. The exams will be given roughly every 4 to 5 weeks. The date will be announced in class at least one week in advance. The lowest grade on one of the three exams will count for 25%, the second best exam will count for 35%, and the best exam will count for 40%. The second exam will only cover the material studied between the first and second exam. The last exam will cover the last part in addition to some (NOT ALL) of the material previously covered. You will be given a set of review questions for the essay part as well as the multiple choice part to study before each exam. The exam will be a combination of essay and multiple choice questions.

6. ATTENDANCE: ATTENDANCE IS A MUST. I WILL BE HANDING OUT A FEW ARTICLES IN CLASS AND WILL NOT BRING THEM TO CLASS MORE THAN ONCE. IF FOR ANY REASON YOU ARE UNABLE TO ATTEND CLASS, MAKE SURE THAT YOU HAVE A PARTNER THAT WOULD COLLECT THESE HANDOUTS FOR YOU. ALTERNATIVELY, YOU CAN COME TO MY OFFICE FOR YOUR COPY(IES). HOWEVER, IF YOU MUST MISS CLASSES FREQUENTLY, YOU ARE RECOMMENDED TO DROP THE CLASS BEFORE THE DEADLINE.

7. EXAM DATES: THE MID-TERM EXAMS DATES WILL BE ANNOUNCED IN CLASS AT LEAST ONE WEEK IN ADVANCE. THERE ARE NO MAKE UP EXAMS. A MISSED EXAM IS AN AUTOMATIC "F". THE ONLY EXCEPTION IS FOR MEDICAL EMERGENCIES THAT ARE PROPERLY DOCUMENTED.

8. INTERNET USE: The last page of the syllabus is a list of a few Web sites on the Federal Reserve, Banks and the U.S. Government. It is taken from one of the publications of the Federal Reserve. I recommend that you visit these sites. They contain a wealth of information that is up to date and relevant to our class.

9. OFFICE HOURS: The office hours are there for you to use. Come by if you have any questions or simply to check on a few things. Avoid mail messages.

10. WITHDRAWAL POLICY: MAKE SURE YOU CHECK THE DATES FOR THE DEADLINE TO DROP IN THE SPRING CATALOGUE.

11. Internet and World Wide Web Sources:

Here are a few Banking and Economic Internet Sites: You can also find more by simply doing a search via Yahoo, or any one of the other search engines, and typing the key words. I am including a list on the following page of the major ones for the following areas: Federal Reserve, Banking, Data, Government, Web Libraries, and Search Engines. Here are two interesting sites:

1. The Economist:
An excellent source. Log on to the site and browse through the “Surveys” that are done on special topics. They have a few on special national and international banking topics.
http://www.economist.com

2. The Bond School:
http://www.moneyline.com/mlc_ftrs.html
3. The Wall Street Journal
http://wsj.com

4. The Financial Times of London
http://www.ft.com

5. Central Banking home page:
http://patriot.net/~bernkopf/

6. The New York Stock Exchange:
http://www.nyse.com

7. The Board of Governors of the Federal Reserve;
http://www.bog.frb.fed.us

8. Council of Economic Advisers:

9. The Inflation Calculator:
http://www.westegg.com/inflation

You can get documents, articles and kind of information from the sites above.

Finally, number 7 is an excellent one because it gives you links to ALL of the other Federal Reserve banks as well as minutes of the F.O.M.C. meetings and other reports. Make use of them.