

**Professor: M. Akacem**  
**MONEY AND BANKING**  
**ECONOMICS 4111-001: Fall 2006**  
**OFFICE: Econ 10**

**OFFICE HOURS:** Mondays and Wednesdays: 8:30 a.m. to 8:55 a.m. and 9:55 a.m. to 10:55 a.m. on the same days in Econ 10 and by appointment.

Class will meet on M, W, F from 9:00 to 9:50 a.m.

The Class will meet in Education 220.

First Day of class: Monday August 28th, 2006

Pls note that I am sharing the office with a colleague and I may not (probably will not) get your phone message. Pls come by during office hours or see me at the end of class. Pls do use the office hours that are reserved for you. Reserve E-mail messages only for emergencies. This class has double the number of students normally assigned to a 4000 course and it would be hard to keep up with E-Mail traffic with over 100 students.

**ECON 4111-001 (3). Money and Banking Systems.**

Discusses money, financial institutions, and the monetary-financial system in a modern economy.

Prereqs., ECON 1000, or 2010 and 2020.

The home page for this course is at:

[webct.colorado.edu](http://webct.colorado.edu)

**Important Note:** If you have not met the prerequisites for this class, you would need to drop it as per the Department of Economics' policy. We are asked to enforce this, so if any student who shows up on the roster with prerequisites that have not been met, will be dropped. Please consult advising at the Econ Dept, if you have any question about this. Another note from the Department is that students may be administratively dropped if they miss the first 3 classes. Remember, there is usually a wait list, so please do attend. Finally, please consult the new honor code and the policy for student classroom behavior. These can be viewed at: <http://www.colorado.edu/policies/index.html>

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**I. IMPORTANT NOTE:** Please read the syllabus carefully and do so immediately. Ask me any question you may have about the class during the first week. To make the syllabus user friendly, the semester is broken into weeks and unit, each with a topic, chapter number(s) and page(s). You will also find other relevant information on exams and grading. However, the course will cover material that is NOT in the text and this will be driven by events in the Financial markets both domestically and globally. I will be using other sources such as The Economist, The Wall Street Journal, The Financial Times and others. Case studies and guest speakers may also alter the pace of the course, so be in class. That is the only way to stay informed and do well.

**II. OBJECTIVE OF THE COURSE:**

First, let me advise you that attendance is MANDATORY and if you miss class, do so at your own risk.

Exam will be drawn from class lectures/discussion as well as text and other sources discussed in class. These will only be announced IN CLASS. Neither the text nor the class notes are replacement for being in class. We will be showing a number of case studies and these audio visual tapes are not and cannot be put on reserve nor can they be lent out. They are equivalent to a lecture. This course has a number of objectives, but one of them 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 some of the material covered in class, but sometimes lectures will go beyond the text. You are expected to be prepared for each unit by reading ahead of time and attending regularly. 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 or regions such as the Asian Currency turmoil. Reading of [The Wall Street Journal](#) and The Economist is extremely important. I will be assigning specific articles to read for class discussion and as an assignment for the exam(s). I will try to keep you informed as to which articles I think are relevant to our class discussion throughout the semester. However, the pace and coverage of topics will be fluid and the lecture format will be interactive, with discussion of topics, issues, articles etc.. and will not recite the text

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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 rehash of upper division Macroeconomics. Check the prerequisites for taking this course. Part of the course will be spent discussing banking regulation and its impact on the banking industry. The aftermath of the repeal of the Glass Steagall act (separation of banking and 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. 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 in the foreign currency market.

### **GUEST LECTURES:**

Finally, one unique and important aspect of this course is the use of outside speakers as well as the showing of case studies. The dates of these events will be announced in class. One will be from the Federal Reserve Bank of Kansas City on Bank Examination by a bank examiner from the Examination Department. Another will be from the Securities and Exchange Commission and one from a hedge fund on derivatives. We may also have someone from Wells Fargo bank. This is conditional on the guest lecturers being able to come to our campus on the dates that they are available. Attendance is MANDATORY and any material covered during these guest lectures is considered fair game for the following exam.

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**III.Main Text:** Money, the Financial System, and the Economy, Fifth Edition by R. Glenn Hubbard, Addison Wesley, 2005.

Make sure you shop around. You can get used copies from these sites when available.

<http://www.cubookswap.com>

<http://www.half.com>

<http://www.amazon.com>

<http://www.barnesandnobles.com>

[http://www.cheapesttextbooks.com/IM/?gclid=COK65Z2e-YYCFSbuPgod-F\\_WXw](http://www.cheapesttextbooks.com/IM/?gclid=COK65Z2e-YYCFSbuPgod-F_WXw)

There are other sites where you can get a used copy or even a new copy at lower price. This book has been used last semester so you should be able to get a good used copy. Make sure it is the right edition.

To practice using quizzes from your old edition's home page at: <http://www.awl.com/hubbard> and click on student resources. Remember that the publisher may remove this at anytime. If you bought a new text, you should have access to My Econ Lab which will give you access to updated material and practice quizzes. If the old site is still working, you will see a list of chapters and you can click on the chapter that you need. On the left menu, you will see an icon for quizzes. Do as many as you can.

### **Other texts and references that are optional reading for the course:**

Check the different sites of the Federal system listed on the class homepage

- "Running Money" by Andy Kessler, Harper Business, 2004.
- "When Genius Failed: The rise and Fall of Long-Term Capital Management" by Roger Lowenstein, Random House, 2000.
- "The Smartest Guys in The Room: The Amazing Rise and Scandalous Fall of Enron" by Bethany McLean and Peter Elkind, Fortune 2003.
- "Ugly Americans: The True Story of the Ivy League Cowboys who Raided the Asian Markets for Millions" by Ben Mezrich, Morrow 2004.
- "The Wall Street Journal Complete Money and Investing Guidebook" by Dave Kansas, (Excellent resource at a reasonable price from a number of On Line places such as Amazon.com)
- "Standard and Poor's Guide to Money and Investing" by Virginia Morris and Kenneth Morris (Excellent resource at a reasonable price from a number of On Line places such as Amazon.com)
- "Secrets of the Temple: How the Federal Reserve Runs the Country", by William Greider, Simon and Shuster, 1987
- "American Finance for the 21st Century" by Robert E. Litan with Jonathan Rauch, The United States Department of the Treasury, November 17, 1997.
- "U.S. Monetary Policy and Financial Markets", by Ann-Marie Meulendyke, Federal Reserve Bank of New York, 1998 (Chapters 1,2,3,4,9 and 10).
- "Using The Wall Street Journal", Fifth Edition, by Michael Lehmann, Irwin 1996 (particularly chapters 4, 11 and 12).
- "Liar's Poker", Michael Lewis, Norton, 1989.
- "The Money Market", by Marcia Stigum, Dow Jones Irwin 1990 or later editions, Chapter, 9 (The Most Watched Player, The Fed)
- "Instruments of The Money Market", by Timothy Cook and Robert LaRoche, (chapters 1 to 3) Federal Reserve Bank of Richmond.
- "U.S. Monetary Policy: An Introduction", Federal Reserve Bank of San Francisco, 1995 (will be left on reserve).
- "Economics: A Guide for the Financial Markets", by Neil MacKinnon and Paula Neal, IFR books, 1992.
- "Stocks for the Long Run", by Jeremy Seigel, Irwin.

### **IV. Material on Reserve at the Library:**

**Book on Reserve:** (Purely Optional) Banking Regulation, Its Purposes, Implementation, and Effects, By Kenneth Spang, 4th Edition, Federal Reserve Bank of Kansas City, Chapters 1-4. I do not always leave this on reserve given the large class and the fact that the material will be covered in class, by the bank examiner as well as covered in your text

**E-Reserve:** Material will be added to the E-Reserve and an announcement will be made in class if you need to check material through E-Reserve..

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**V. READING OF The Wall Street Journal IS A MUST:**

Articles from [The Wall Street Journal](#) that pertain to our class will be discussed in class throughout the semester. If you cannot afford a subscription to the Journal, you can always have access to it at the campus Library or the public library. Once you subscribe to The Wall Street Journal, you will have access to the Interactive Edition via the Internet. The whole journal will be accessed via the web with your special password (instructions will be sent you by the WSJ on how to access the Internet edition). You will also get access to the following journals and magazines: (This may change):

1. The Wall Street Journal (U.S. edition)
1. Barons' Weekly
2. Smart Money magazine
3. The Wall Street Journal Europe
4. The Wall Street Journal Asia (as of last spring, all these were accessible).

First, you need to take a tour of the what is in the Journal. Here are two sites. One is for the Print edition and one is for the Interactive Edition. You will get both if you subscribe so it is nice to look at both anyway:

For the one semester subscription you need to go to:

<http://subscribe.wsj.com/semester>

Steps to subscribe for the WSJ:

1. For the zip code, type in: 803
2. Then choose, University of Colorado, Boulder
3. Then fill in the fields and for your professor it should be (is) the first one: Akacem

You should get the paper rather quickly. If you have any problem, please do let me know.

This will be for a one semester or 15 weeks for \$19.95 which includes the paper and the interactive edition where you can back search for up to 90 days.

## **VI. COURSE OUTLINE: The pace and coverage will vary:**

**Week One:** Outline One: Introduction: Chapters 1, 2 and 3

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Two:** Outline One: Continued: Chapters: 1, 2 and 3 Continued.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Three:** Outline 2 : Chapter: 14 and 15 from the main Text and part of 13 (pages 276 to 283). Parts on credit risk and liquidity risk will be covered by Mr. Greg Carter, the bank examiner from the Federal Reserve.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

If possible, and depending on his schedule, Mr. Greg Carter will give a talk to the class.

**Week Four:** The Banking Industry Continued: same as week Three  
Case Studies viewed in class:

1. Other People's Money
2. The Greatest American Bailout

**Week Five:** Outline Three: The Savings & Loans crisis: Class discussion based on the case studies viewed in class.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

If time permits, we will view the case study titled: "Dow Jones", a history of the Dow Jones average. (Already Shown)

**Exam One: October 2nd and October 4th, 2006. The first part of the exam will be given on Monday and the second part on Wednesday.**

**Week Six:** Outline Four: The Federal Reserve System: Organization of Central Banks, Chapters 19

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Seven:** Outline Five: The Money Supply Process, Chapters: 17.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Eight:** Outline Six: Chapters: 17 continued:

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Nine:** Outline Seven: Chapter 18 (pages 425 to 430) and Chapter 20: Monetary Base and Budget Deficits, Monetary Policy Tools and the Federal Funds Market

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Ten:** Outline Eight: Goals and Tools of Monetary Policy, Targets and Instruments, Chapter 21.

Before Exam 2, we will watch the following case studies as time permits (one or two depending on time). I will announce in class before I schedule them and will try to note it on the Webct calendar:

The Wall Street Fix

The Secret History of the Credit Cards

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Exam 2: Monday November 6th and Wednesday November 8th, 2006. The first part of the exam will be given on Monday and the second part on Wednesday.**

**Week Eleven:** Outline Nine: Decline of Traditional Banking as We Know It. Lecture material. See article at:

<http://www.newyorkfed.org/research/epr/95v01n2/9507edwa.pdf>

**Week Twelve:** Outline Ten: Emerging Market Debt, Debt Conversion and the External Sector. Lecture material. There is not much material on this subject in chapter 22, even though the discussion of exchange rates is relevant.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Thirteen:** Fall Break

**Week Fourteen:** Outline Eleven: Exchange Rates, Capital Flows and the Asian Currency Crisis, The European Monetary Union, Chapters 8, 22 and Lecture Material.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

Case studies planned: The Crash (case study covering the Asian currency melt down) and The Trillion Dollar Bet (case study covering the failure of LTCM)

**Week Fifteen:** Outline Twelve: The Euro, Lecture Material and if time allows The Junk Bond Market, Lecture material.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Week Sixteen:** Outline Thirteen: Stock Market Crash of 1929 and 1987. See the reading from the WSJ on E-Reserve. Lecture Material. Case study: The Crash of 1929. Role of, or lack of, The Federal Reserve.

Any material from: The WSJ, The Economist, The Financial Times or any current events dealing with Banking and Finance.

**Final Exam: Wednesday December 20th, 2006, from 7:30 a.m. to 10:00 a.m.**

Holidays: Labor day, Monday September 4th and Fall break during Thanksgiving week from November 20th to November 24th, 2006.

## **VII. GRADING:**

You will have a TOTAL of three (3) EXAMS. Please read the following carefully. There are **NO Make Up** exams so plan ahead. A missed exam is an automatic "F" and you will have the remaining weights only. The only exception will be for a **well documented medical emergency for that specific day**. The final will have to be taken on the date indicated below. There are **NO EXCEPTIONS**. Weddings, travel plans etc. will not do. Cheating will result in an automatic F for the course and will be reported as per the University policy.

### **Three Exams:**

The weights on your exams will be 25%, 35% and 40%. The best of the first two exams will carry a 35% weight, the second best 25% and the Final will carry a 40% weight.

### **How do I use the weights to estimate my overall grade?**

**Here is an example:** Let us assume that you received a 70 in the first test, and 82 in the second test and an 87 in the last test. Remember, that you don not know what the last grade is (at least not yet), but you can guess based on your performance. Take 35% of the highest grade from the first two tests: or 82 times 35% which is 28.7 ( $.35 * 82$ ). Take 25% from the second highest grade from the first two tests: or 70 times 25% which is 17.5 ( $70 * .25$ ) and finally 40% of the final or .40 times 87 is 34.8 ( $.40 * 87$ ). You add the 3 numbers [ $28.7 + 17.5 + 34.8 = 81$ ], or a B. You can do this even before you take the first test by simply estimating what grades you may receive and see what overall grade you end up with.

## **IX. THE STOCK MARKET GAME:**

There are a number of stock market games that are offered for free on the web (E trade for example and others). Feel free to try anyone of them and consult with me if you wish about strategy.

## **X. EXAM DATES: A Recap: Mark your calendar:**



**Exam One: October 2nd and October 4th, 2006 in the same room as the class.**

**Assignments for exam one:** All the material covered in class between the first day of class and the day of the exam which MAY be more than what is listed above. Wall Street Journal article(s) or Financial Times articles discussed, articles from the Economist, audio visual tapes (cased studies) watched in class or guest lectures in addition to outlines 1, 2 and 3, chapters 1, 2, 3, 14 and 15. Lecture units 1, 2 and 3 and any additional material, case studies, guest lectures that take place prior to exam one. Please note that the outlines and the lectures notes are only offered to you as an additional resource. They are a bit dated so you should rely more on the chapters and what we cover in class. The first test will be Multiple choice and essay questions covering material from class and/or any assigned Wall Street Journal articles. That will be made clear whenever new material is introduced in class. Any material covered in class is fair game for each one of the three exams.

**Exam Two: Monday November 6th and Wednesday November 8th, 2006 in the same room as the class.**

**Assignments for exam two:** All the material covered in class between the first exam and the second exam which MAY be more than what is listed above. Any additional material covered in class, Wall Street Journal article(s) or Financial Times articles discussed, audio visual tapes (cased studies) watched in class or guest lectures in addition to outlines 4, 5, 6 and parts I and II of outlines 7. Chapters 19, 17, 18 (pp:425 to 430). Lecture units, 4, 5, 6 and parts I and II of lecture unit 7 and any additional material, case studies, guest lectures that take place between exam one and exam two. The second test will have problem sets, and some may be in the form of multiple choice questions as well as essay questions.

**Exam Three: Wednesday December 20th, 2006, from 7:30 a.m. to 10:00 a.m. You can check the finals' schedule for this class and others at:**

[http://registrar.colorado.edu/calendar/exam\\_sched\\_fall06.html](http://registrar.colorado.edu/calendar/exam_sched_fall06.html)

**Note: Please be on time. The Final will not be given to any student who arrives after students who finished the exam have left the room. So plan ahead.**

**All the material covered in class between the second exam and the last exam which MAY be more than what is listed above. Please note that the exam starts at 1:30 p.m. you MUST be there at 1:30 p.m. in order to be able to take it. If you come after a student has finished and returned the exam, you will not be able to take the exam. It should not take you the whole allocated time. Just as with the 1st and 2nd exam, the exam will take place in the same room and on average takes between 30 minutes to one hour.**

**Make sure and double check by looking at the schedule of finals in case there is a last minute change.**

**Assignments for exam three:** Any additional material covered in class, Wall Street Journal article(s) discussed or Financial Times articles audio visual tapes (cased studies) watched in class or guest lectures in addition to outlines 7 (starting from part III), 8, 9 and 11. Chapters 20, 21, 8 and 22. For outline number 9, only the material covered in it. Booklet on "US monetary Policy: An introduction" Federal reserve bank of San Francisco, found at the following URL:

<http://www.frbsf.org/publications/federalreserve/monetary/MonetaryPolicy.pdf>, page 12-16. The third test will be multiple choice exam and essay questions (up to 3 or more with 2 parts each). In addition, the junk bond market lecture, The Euro and the Asian crisis if we get to it. Remember

that the exam will cover more than what is listed above. That will be made clear whenever new material is introduced in class.

**XI. OFFICE HOURS:** Mondays and Wednesdays from 8:30 a.m. to 8:55 a.m. and 9:55 a.m. to 10:55 a.m. in Econ 10. or by appointment whenever possible

**XII. INTERNET AND WORLD WIDE WEB SOURCES:**

You will find plenty of sites that are relevant to what we do in class. I particularly want you to visit the various Federal Reserves' sites as well as the board of governors where you can read the minutes of the Federal Open Market Committee meetings as well as other reports on the state of the US economy. If you find sites that you think could be helpful and are relevant to what we do, pls do not hesitate to let me have the address. I will be happy to add them.

**XIII. Policies:**

**Religious Holiday and ADA policy:**

I will enforce the religious holiday policy as well as the ADA policy for anyone who requires it. I would need to be notified during the first two weeks if anyone needs special a accommodation together with a letter from the ADA office.

**Withdrawal**

Check the **Fall 2006 class schedule**. It has the full calendar for the Fall 2006 with all the dates that you need (**drop dates deadlines, refund etc...**). I urge you to take a moment to look at it and note the important dates.

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