

Professor: M. Akacem

MONEY AND BANKING

ECONOMICS 4111-001: Spring 2007

OFFICE: Econ 10

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: <http://culearn.colorado.edu>

OFFICE HOURS: Tuesdays and Thursdays

8:00 a.m. to 9:15 a.m. in Econ 10

and by appointment.

Given the large size of the class, please avoid phone messages and email unless it is an emergency. 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.

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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IMPORTANT NOTE: Please read the syllabus carefully and do so immediately. The course will cover material that is NOT in the text or in the lecture notes 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.

OBJECTIVE OF THE COURSE:

First, let me advise you that attendance is MANDATORY and if you miss class, do so at your own risk. Exams 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](#), [The Economist](#) and [The Financial Times](#) is extremely important. I will be assigning specific articles to read for class discussion from one or all of these sources as an assignment for the exam(s). 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.

GUEST LECTURES and case studies:

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 are tentatively listed in the outline below. Any change 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. This is conditional on the guest lecturers being able to come to our campus on the dates that they are available. Any material covered during these guest lectures is considered fair game for the following exam.

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

Here are a few sites that you may want to check to purchase the class text:

<http://www.cubookswap.com/>

<http://www.half.com/>

<http://www.amazon.com/>

<http://www.barnesandnoble.com/>

http://www.cheapesttextbooks.com/IM/?gclid=COK65Z2e-YYCFSbuPgod-F_WXw

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.

Material on Reserve at the Library:

Book on Reserve: Banking Regulation, Its Purposes, Implementation, and Effects, By Kenneth Spong, 4Th Edition, Federal Reserve Bank of Kansas City, Chapters 1-4. Optional.

E-Reserve: Before the Fall, The Wall Street Journal. This article is part of the assignment for Exam 3. Material will be added to the E-Reserve and an announcement will be made in class when the material is added. CU's E-Reserve can found at: <http://libraries.colorado.edu/screens/coursereserves.html>

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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. Through the University Library resources, you will also have access to a number of other newspapers and magazines such as The Economist provided you have the full title, date and author of the article.

Once you subscribe to The Wall Street Journal, you will have access to the Interactive Edition via the Internet and will have access to a 90 archive. 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).

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.

Tentative Course Outline: The pace and coverage will vary. Outlines are only a rough guide for what we will cover in class:

Week One:	Outline One: Introduction: Chapters 1, 2 and 3. Current events, The WSJ , The Economist , The Financial Times	
Week Two:	Outline 2 : Chapter: 14 and 15 from the main Text and part of 13 (pages 276 to 283). Basic T-Accounts for bank balance sheets Current events, The WSJ , The Economist , The Financial Times	
Week Three:	Bond markets, Bond Ratings, and Yield Curves Current events, The WSJ , The Economist , The Financial Times	
Week Four:	Outline Three: The Savings and Loans Crisis. Case Studies 1 & 2: Other People's Money and The Greatest American Bailout. Current events, The WSJ , The Economist , The Financial Times	
Week Five:	First Guest lecture: Mr. Greg Carter, Managing Examiner, Federal Reserve Bank of Kansas on "Bank Examination". Current events, The WSJ , The Economist , The Financial Times	
Week Six:	Exam One: Tuesday February 20th, 2007. Please be on time. The Exam will not be given once a student leaves.	The exam will cover all of the material, case studies, and any topics/material from Week One to Week Five.
	Begin Outline Four: The Federal Reserve System, Chapter 19, on Thursday. Current events, The WSJ , The Economist , The Financial Times	
Week Seven:	Outline Four: Continued: The Federal Reserve System: Organization of Central Banks, Chapter 19. Outline Five: The Money Supply Process. Chapter 17. Current events, The WSJ , The Economist , The Financial Times	
Week Eight:	Outline Six: Continued: Chapter 17: The Money Supply Process Current events, The WSJ , The Economist , The Financial Times	
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. Only part I and II from Outline Seven are assigned for Exam 2. The rest of the Outline is assigned for Exam 3. Case Study 3 & 4: The Wall Street Fix and The Secret History of the	

	Credit Cards Current events, The WSJ , The Economist , The Financial Times	
Week Ten:	Finish the case studies. Outline Eight: Goals and Tools of Monetary Policy, Targets and Instruments: Chapter 21. This Outline will be covered in Exam 3. Current events, The WSJ , The Economist , The Financial Times	
Week Eleven:	Spring Break: March 26-30th, 2007	
Week Twelve:	Case Study # 5: The Trillion Dollar Debt. The failure of a large hedge fund, LTCM Exam 2: Thursday April 5th, 2007. Please Be on time. The Exam will not be given once a student leaves.	The Exam will cover all of the material, case studies and topics/material from Week Six to Week Twelve.
Week Thirteen:	Guest Lecture 3: Mr. Brian Roche on Hedge Funds, Mutual Funds and Mortgage Backed Derivatives. This will depend on Mr. Roche's schedule. Outline Eleven: Exchange Rates, Capital Flows and the Asian Currency Crisis, Chapters 8 and 22. Case Study #6: The Crash. A case study on the Asian currency crisis, Russian default, the currency meltdown and the role of the IMF. Current events, The WSJ , The Economist , The Financial Times	
Week Fourteen:	Outline Twelve: The Junk Bond Market, Lecture material The Euro, Lecture Material. Current events, The WSJ , The Economist , The Financial Times	
Week Fifteen:	Outline Thirteen: Stock Market Crash of 1929 and 1987. See the reading from the WSJ "Before The Fall" WSJ 12-11-1987 found on E-Reserve. Lecture Material. Case study # 7: The Crash of 1929. Role of, or lack of, The Federal Reserve. Current events, The WSJ , The Economist , The Financial Times	
Week Sixteen:	Guest Lecture # 3: Mr. Fred Chavez on the Securities Exchange Commission, its role, insider trading and a few examples from the recent past. Read the following pages found at the Federal Reserve Bank of San Francisco , pages 12-16. Will finish any outstanding material not yet covered. If times allows, we will watch case study # 8: Milton Friedman on his work, views on the US and the World economy. Current events, The WSJ , The Economist , The Financial Times	
Week Seventeen:	Exam 3: Saturday May 5th, 2007 from 1:30 p.m. to 4:00 p.m. The Exam will definitely not be given to any student that arrives to the classroom after a student leaves the room. So please be on time.	The Exam will cover all of the material, case studies and topics/material

To check and confirm the final's date and time for this class, as well as for others, go to:

http://registrar.colorado.edu/calendar/exam_sched_spring07.html

from Week
Thirteen to
Week Sixteen.

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 above. 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.

EXAM DATES: A Recap: Mark your calendar:

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.

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 **Spring 2007 class schedule**. It has the full calendar for the Spring 2007 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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