Money & Banking (220:301:04)

Fall 2014

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Office Hours: 3:15-4:00 Tuesdays and Thursdays

Class meets Tuesdays/Thursdays 4:30pm to 5:50pm
Room 135 Scott Hall, CAC

Prerequisites: Eco 102 & 103 (This is a lower level elective)

Money & Banking

December 23, 1913 Woodrow Wilson signed into law the Federal Reserve Act. We are now just beyond the 100th anniversary of the Fed. As such it is appropriate that we spend some time in class studying the history of the Fed.

The world of Money & Banking has changed significantly in recent years. Concepts such as "Too Big to Fail", and the "Volcker-Rule" have been incorporated into recent legislation (Dodd-Frank).

The Fed has reached the co-called "Zero-Bound", that is the traditional policy rate is effectively at zero. Has the Fed run out of ammo in combating the persistently high unemployment rate? What are the unconventional tools used by the Fed, and are they working? How will the Fed unwind these unconventional policies?

Welcome to Money & Banking.

These topics and more will be discussed in class.

Final Exam

To avoid any confusion it is policy to display the date and time of the final exam on the front page of the syllabus.

Date: Friday, December 19, 8:00am

Grading Policy

First Exam	40%
Final Exam	50%
Assignments	10%

Make-Up Exams will only be given under extraordinary circumstances. Students should check with me before missing an exam to see whether their particular circumstances meet my very limited definition of extraordinary.

Learning Outcomes

Students who satisfactorily complete Money & Banking will understand the role of money and banks in the broader economy. Specifically, students should garner an understanding of the unique role of banks in the financial system. Students will learn how banks and other financial institutions make money, and allocate credit. Students will also have an appreciation for the money markets and bond market.

Students will also learn the relevance of the Federal Reserve and related central banking topics, including the causes, policy responses, and lessons associated with the current financial market crisis.

Attendance Policy

Students are expected to attend every class. While I understand that such is not always possible, students should be aware that I will not provide individual review sessions. I will take attendance. Moreover, ***students should understand that it is impossible to pass this course without regular attendance***.

Students are expected to attend all classes; if you expect to miss one or two classes, please use the University absence reporting website: http://sims.rutgers.edu/ssra/*to indicate the date and reason for your absence. An e-mail is automatically sent to me.*

Other

The University has established rather severe penalties for cheating. This link details the academic integrity disciplinary process: http://academicintegrity.rutgers.edu/academic-integrity-disciplinary-process

Textbook

Much has changed in the world of Money & Banking over the past few years. As a consequence most textbooks are out of date. I teach largely from Power-Point presentations, which I make available to students. I don't teach directly from a textbook. That said, I do recommend that students have access to a standard text. Any of the major texts will do, try to buy a used, or old edition, I am trying to save you money. In past semesters I have assigned the following:

M&B, Dean Croushore, South-Western Cengage Learning, 2nd edition. (1st edition will suffice)

Homework Assignments

There will be a number of homework assignments. These assignments are designed to get your "hands dirty" with economic and financial market data. You will be required to download data from Federal Reserve and other websites, manipulate the data in an Excel spreadsheet, draw graphs using these data, and reflect upon the underlying story captured in these graphs.

Students should be aware that I am not looking for perfection; each assignment should take only about 1/2 hour. Your mission is an attempt at some basic level of economic research. My thinking is that you will understand the concepts better by actually playing with the data.

Students should use the ***"Assignments"*** function on ***Sakai*** to turn in assignments. Full credit will be given to all "good-faith" attempts at completing assignments. ***Thus, make sure you turn in all assignments on time***. This is an easy way of securing the full 10% contribution to your final grade.

Class Notes

I will use Power-Point presentations in class. I will make these available to you in advance (via Sakai). I recommend that you use printouts of these presentations to take class notes. Some students have found it useful to compile these presentations in a binder.

Lesson 1--What Is a Bank?

Chapter 2--M&B

Banking Basics, Federal Reserve Bank of Boston
http://www.bostonfed.org/education/pubs/bankingbasics.htm

Extra Credit Assignment: Fun With T-Accounts

Lesson 2--What Is Money?

Chapter 3--M&B

Lesson 3--How Banks Work

Chapter 8--M&B

Lesson 4--Instruments of the Money Markets

Special Report: Instruments of the Money Market, Tim Cook and Robert Laroche, Federal Reserve Bank of Richmond (Chapter 1)
http://www.richmondfed.org/publications/research/special_reports/instruments_of_the_money_market/index.cfm

Who's Borrowing in the Fed Funds Market? Gara Afonso, Alex Entz, and Eric LeSueur, Liberty Street Blog, FRBNY (December 9, 2013)
http://libertystreeteconomics.newyorkfed.org/2013/12/whos-borrowing-in-the-fed-funds-market.html

Who's Lending in the Fed Funds Market? Gara Afonso, Alex Entz, and Eric LeSueur, Liberty Street Blog, FRBNY (December 2, 2013)
http://libertystreeteconomics.newyorkfed.org/2013/12/whos-lending-in-the-fed-funds-market.html

Libor: The Basics, The British Bankers Association
http://www.bbalibor.com/bbalibor-explained/the-basics

Why Are Bill Yields Negative? CNBC Interview with Raymond Stone (December 21, 2011), http://video.cnbc.com/gallery/?video=3000063716

Assignment 1: Graph the following (1995 to present monthly, all on same graph)

(1) Federal Funds rate
(2) 1-month Eurodollar
(3) 1-month Commercial Paper (Nonfinancial)
(4) 1-month CD (secondary market)
(5) Bank Prime Loan
(6) 3-month Treasury Bill (secondary Market)

These data can be found here:
http://www.federalreserve.gov/releases/h15/data.htm

Lesson 5-Bank Regulation and Supervision

The Dodd-Frank Act: a cheat sheet
http://www.mofo.com/files/Uploads/Images/SummaryDoddFrankAct.pdf

Q&A: The Volcker Rule
http://online.wsj.com/article/SB10001424052702303822204577464661833507038.html

Too Big to Fail
http://www.minneapolisfed.org/publications_papers/studies/tbtf/index.cfm

What are CAMELS and who should know?
http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=2518

FRBPF Chapter 5
http://www.federalreserve.gov/pf/pdf/pf_5.pdf

Lesson 6--Fed History (Early Days)

Centennial Timeline
http://www.federalreserveeducation.org/about-the-fed/history/
Events, People, and Purpose
http://www.federalreservehistory.org/
Video of Centennial Commemoration
https://www.youtube.com/watch?v=BYAI9cLggPU

Panic of 1907
Federal Reserve Bank of Boston
http://www.bos.frb.org/about/pubs/panicof1.pdf

Historical Beginnings…. The Federal Reserve System (Chapter 3)
Federal Reserve Bank of Boston
http://www.bos.frb.org/about/pubs/begin.pdf

A Century of U.S. Central Banking: Goals, Frameworks, Accountability, Ben Bernanke, July 10, 2013.
http://www.federalreserve.gov/newsevents/speech/bernanke20130710a.htm

Decision of the Reserve Bank Organization Committee, April 2, 1914
http://fraser.stlouisfed.org/docs/historical/Misc/ReserveBankDecision1914.pdf

Lesson 7--Fed History (Depression/Modern Fed)

Then and Now: Fed Policy Actions During the Great Depression and Great Recession, David Lopez, Federal Reserve Bank of St Louis, November 2011
http://liber8.stlouisfed.org/newsletter/2011/Lib1111ClassrmEdition.pdf

Closed for the Holiday (The Bank Holiday of 1933)
Federal Reserve Bank of Boston
http://www.bos.frb.org/about/pubs/closed.pdf

Romer Roundtable: An Imperfect Parallel, Raymond Stone, The Economist, (June 19, 2009)
http://www.economist.com/blogs/freeexchange/2009/06/romer_roundtable_an_imperfect

Treasury-Federal Reserve Accord 1951
http://www.richmondfed.org/publications/research/special_reports/treasury_fed_accord/background/

The Great Inflation (Late 1960s/1970s)
Federal Reserve Bank of San Francisco
http://www.frbsf.org/econrsrch/wklyltr/2000/el2000-21.html

Monetary Policy in the Late 1970s/Early 1980s
Federal Reserve Bank of San Francisco
http://www.frbsf.org/education/activities/drecon/2003/0301.html

U.S. Monetary Policy & Financial Markets, Targeting Money and Nonborrowed Reserves 1979-1982, Ann-Marie Meulendyke, FRBNY 1998, Chapter 2, p48-56
http://www.ny.frb.org/education/addpub/monpol/chapter2.pdf

Lesson 8-- Money Supply and the Economy/Quantity Theory

Chapter 18--M&B Section on Money-Growth Rules (p392-394)

Milton and Money Stock Control, William Poole (FRBSL July 30, 2007)
http://fraser.stlouisfed.org/docs/historical/frbsl_history/presidents/poole/20070731.pdf

Lesson 9 Understating Interest Rates

Chapters 4 & 5--M&B

Assignment 2: Bond Math Worksheet

Lesson 10 Interest Rate Determination

Chapter 6--M&B

Lesson 11 The Risk and Term Structure of Interest Rates

Chapter 6--M&B

The Yield Curve as a Leading Indicator, Arturo Estrella (FRBNY October 2005)
http://www.newyorkfed.org/research/capital_markets/ycfaq.html - Main

Assignment 3: Graph the following (1980 to present monthly)
(1) Yield Curve Slope--10-yr constant maturity Treasury minus effective Fed Funds rate
(2) Compare Yield Curve Slope series with 12-month % chg in Industrial Production
These data can be found on the St Louis Fed's FRED Database:

http://research.stlouisfed.org/fred2/

First Exam--Date to be announced

Lesson 12--The Federal Reserve Structure, Transparency and Independence

Chapter 15--M&B

Lesson 13--The Money Supply Process

Chapter 16--M&B
Assignment 4: Graph the following: (Monthly 1978 to present)
M1 & M2 Money Supply Multipliers (Money Supply/Monetary Base)
Total Reserves: http://www.federalreserve.gov/releases/h3/hist/h3hist1.txt
Money Supply: http://www.federalreserve.gov/releases/h6/hist/h6hist1.txt

Lesson 14 -- Monetary Policy--Traditional Tools of the Fed

M&B chapter 17

A Day in the Life of the FOMC
http://www.philadelphiafed.org/education/teachers/resources/day-in-life-of-fomc/

Lesson 15--Credit Crisis: What Went Wrong?

Six Fingers of Blame in the Mortgage Mess, Alan Blinder, Op-Ed NYT Sept 30, 2007
http://www.nytimes.com/2007/09/30/business/30view.html?_r=1&scp=7&sq=Alan%20Blinder&st=cse

Lesson 16--Crisis Related Fed Liquidity Provisions

Discount Window Policies
http://www.frbdiscountwindow.org/index.cfm

Why Do Banks Feel Discount Window Stigma? Olivier Armantie, Liberty Street Blog, FRBNY, January 15, 2014 http://libertystreeteconomics.newyorkfed.org/2014/01/why-do-banks-feel-discount-window-stigma.html

The History of a Powerful Paragraph
http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3485

Federal Reserve Liquidity Provision During the Financial Crisis of 2007-2009, Michael Fleming, FRBNY Staff Reports # 563, July 2012.
http://www.newyorkfed.org/research/staff_reports/sr563.html

Interest on Reserves and Monetary Policy, Marvin Goodfriend , FRBNY Economic Policy Review 2002 http://www.newyorkfed.org/research/epr/02v08n1/0205good.pdf

Lesson 17--Unconventional Policies--The Great Experiment

Federal Reserve Communications, Ben Bernanke (Nov 14, 2007)
http://www.federalreserve.gov/newsevents/speech/bernanke20071114a.htm

Communication in Monetary Policy , Janet Yellen (April 4, 2013)
http://www.federalreserve.gov/newsevents/speech/yellen20130404a.htm

Monetary Policy: Many Targets, Many Instruments. Where Do We Stand? Janet Yellen, April 16, 2013
http://www.federalreserve.gov/newsevents/speech/yellen20130416a.htm

Thoughts on Unconventional Monetary Policy, Jerome H. Powell, June 27, 2013
http://www.federalreserve.gov/newsevents/speech/powell20130627a.htm

The Federal Reserve's Asset Purchase Program, Janet Yellen, January 8, 2011
http://www.federalreserve.gov/newsevents/speech/yellen20110108a.pdf

Fed's Twist May Prompt Bigger Turn, Matt Phillips, WSJ, September 30, 2011
http://online.wsj.com/article/SB10001424052970203405504576601313434984974.html

Operation Twist Versus Quantitative Easing, Bloomberg TV interview with Raymond Stone (October 3, 2011), http://www.bloomberg.com/video/76434666/

Lesson 18-- The Transmission of Monetary Policy

The Monetary Transmission Mechanism: Some Questions and Further Answers, Kenneth Kuttner and Patricia Mosser, FRBNY Economic Policy Review, May 2002
http://www.newyorkfed.org/research/epr/02v08n1/0205kutt.pdf

The Financial Accelerator and the Credit Channel, Ben Bernanke, *At the The Credit Channel of Monetary Policy in the Twenty-first Century Conference, Federal Reserve Bank of Atlanta, Atlanta, Georgia,* June 15, 2007
http://www.federalreserve.gov/newsevents/speech/bernanke20070615a.htm

Evidence of the Portfolio Balance Channel of Quantitative Easing, Daniel Thorton, FRBSTL Working Paper, June 2012
http://research.stlouisfed.org/wp/more/2012-015

The Federal Reserve and Monetary Policy,
Jonathan McCarthy, FRBNY September 22, 2011
http://www.newyorkfed.org/education/pdf/McCarthy.pdf

Lesson 19 --The Unwinding of Unconventional Fed Policies--Interest on Reserves and Other Exit Strategy Tools

Exit Strategy Principles, Minutes of the Federal Open Market Committee, June 21-22, 2011 (Page 3)
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20110622.pdf

Interest on Reserves and Monetary Policy, Marvin Goodfriend , FRBNY Economic Policy Review 2002 http://www.newyorkfed.org/research/epr/02v08n1/0205good.pdf

Recent Developments in Monetary Policy Implementation, Simon Potter EVP FRBNY, December 2, 2013 http://www.newyorkfed.org/newsevents/speeches/2013/pot131202.html

Federal Reserve's Exit Strategy, Ben Bernanke (March 25, 2010)
http://www.federalreserve.gov/newsevents/testimony/bernanke20100325a.htm

Lesson 20 --The Taylor Rule

Donald Kohn: John Taylor rules
http://www.bis.org/review/r071019f.pdf

Assignment 5: Graph the following (Quarterly 1992 to present)
Effective Funds Rate and Taylor Rule estimate of Funds Rate--Data to be provided

Final Exam: December 19 @ 8:00am