

RUTGERS UNIVERSITY
DEPARTMENT OF ECONOMICS
Spring 2014

Econ301:09 - Money and Banking

Instructor: Antonio Cusato Novelli

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Class Location: CAC FH-A5

Session Dates: Jan 22 - May 5

Class Time: M,W 6:10 - 7:30 PM

Office: NJ Hall 408, CAC

Office Hours: T 11:30-12:30 or by appointment

Prerequisites: Econ102 (Intro to Micro) and Econ 103 (Intro to Macro)

Learning Outcomes

Students who satisfactorily complete Money and 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 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.

This course is a **lower level elective**.

Course Materials

The textbook is: Mishkin, *The Economics of Money, Banking and Financial Markets*, 10th edition (Pearson), ISBN-13: 978-0132770248.

Since there are older versions of the book, it is the student's responsibility to overcome any problems related with the changes introduced in the latest edition (10th).

Most of the lectures will be based on different chapters of the textbook. However, some lectures will be mainly based on other materials:

- Lecture VI. Capital Structure, Portfolio Theory and Derivatives. Sources:
 - (a) Chapter 5 of L. Ball (2011) *Money, Banking and Financial Markets*. 2nd edition
 - (b) Chapter 7 of R. G. Hubbard and A. P. O'Brien (2011), *Money, Banking, and the Financial System*. Pearson
 - (c) Robert Shiller (2011). Financial Markets. Open Yale Courses. Lecture 4
- Lecture IX. 2007-2008 Financial Crisis. Sources:
 - (a) *The Federal Reserve and the Financial Crisis. Chairman Bernanke's College Lecture Series*. <http://www.federalreserve.gov/newsevents/lectures/about.htm>
 - (b) Chapter 18 of L. Ball (2011) *Money, Banking and Financial Markets*. 2nd edition
 - (c) A. B. Ashcraft and T. Schuermann (2008), *Understanding the Securitization of Subprime*

Mortgage Credit. FRB of New York, Staff Report 318

(d) G. B. Gorton (2008), *The Panic of 2007*. NBER Working Paper 14358

(e) M. Bordo (2013) *The Federal Reserves Role: Actions Before, During, and After the 2008 Panic in the Historical Context of the Great Contraction*. Mimeo

- Lectures XI and XII. The Money Supply Process and Conventional and Unconventional Monetary Policy. A complementary source is: *The Federal Reserve and the Financial Crisis. Chairman Bernanke's College Lecture*. Also Bordo (2013).

You do not need to buy or read these other materials as long you (1) come to class, (2) take good notes, (3) understand the discussion, (4) ask questions when something is not clear (in class or during office hours). In general, these four recommendations are necessary for a good performance. All the lectures in this course will incorporate material not included in the textbook that will be evaluated. Also, each chapter of the book covers many topics using a long presentation in each case. Several of these topics overlaps with other courses and will not be discussed. Hence, we will not cover all the topics in each chapter (specially in chapters related to monetary policy). The conclusion is that people who do not follow these four recommendations will be spending time reading materials that are not required or will not be evaluated, and face questions on exams that are not covered by the textbook.

Course Outline

The following course outline could be subject to changes.

Lecture	Materials
I. Introduction to the Financial System	Mishkin, chapter 1, 2
II. Money	Mishkin, chapter 3
III. Understanding Interest Rates and their Behavior	Mishkin, chapter 4, 5
IV. The Risk and Term Structure of Interest Rates	Mishkin, chapter 6
V. The Stock Market and the Efficient Market Hypothesis	Mishkin, chapter 7
VI. Capital Structure, Portfolio Theory and Derivatives	Ball (2011), Hubbard and O'Brien (2011)
VII. An Economic Analysis of Financial Structure	Mishkin, chapter 8
VIII. Banking and the Management of Financial Institutions	Mishkin, chapter 10
IX. 2007-2008 Financial Crisis	Ashcraft and Schuermann (2008), Ball (2011), Chairman Bernanke's College Lecture Series, Gorton (2008), Bordo (2013)
X. Central Banks and the Federal Reserve System	Mishkin, chapter 13
XI. The Money Supply Process	Mishkin, chapter 14, Bordo (2013) Chairman Bernanke's College Lecture Series
XII. Conventional and Unconventional Monetary Policy	Mishkin, chapter 14, 15, Bordo (2013) Chairman Bernanke's College Lecture Series
XIII. Last Topics on Monetary Policy	Mishkin, chapter 16, 19, 22, 23, 25

Academic Integrity and Grading Policy

- Students are expected to maintain Academic Integrity¹. Cheating in an exam will be reported and considered as a serious violation.
- Students with disabilities must present a letter from the RU Office of Disability Services before the first quiz.

¹ <http://academicintegrity.rutgers.edu/about-the-office-of-student-conduct>

- Students are expected to attend all classes. If you expect to miss one or two classes because of illness or a family emergency, please use the University absence reporting website <https://sims.rutgers.edu/ssra/> to indicate the date and reason for your absence. An email is automatically sent to me.
- During the semester, there will be 3 quizzes, one midterm and one final. The lowest quiz grade will not be considered for the calculation of your final quiz grade (only the other two). The final exam will not be cumulative.
- There will be one make-up exam at the end of the course. Students are allowed to take this exam under extraordinary circumstances. This make-up exam will be cumulative.
- The following table considers important dates and events:

Dates	Event
Feb 12	Quiz 1
Feb 26	Quiz 2
Mar 10	Midterm
Mar 24	Last day to drop with W
Apr 23	Quiz 3
May 12, 8-11PM	Final exam

- The material that will be evaluated on quizzes and exams will be posted on the *Announcements* section of the Sakai site.
- Course grade will be based on 2 quizzes (30 per cent), 1 midterm exam (35 per cent) and 1 final exam (35 per cent).