

Money and Banking
Spring 1996
Office: HRM 323 (486-3853)
Office Hours: TuTh 10:30 - 12:00

Economics 230
Mr. Miller

Text 1: The Economics of Money, Banking, and Financial Markets, fourth edition, by Frederic S. Mishkin
(The Study Guide is available shrink-wrapped with the text for a good price, but not required.)

Text 2: Wall Street Journal

Class: TuTh 12:30 - 2:00, HRM 221.

Grading: There will be a midterm exam, a (cumulative) final exam, two (announced) quizzes, and a term project. Each quiz will be worth 25 points; the term project, 50 points, and the midterm and final exams, 100 points each. Four different curves will be calculated based on the following:

- | | |
|---|--------------|
| 1. Final Exam | (100 points) |
| 2. Final Exam + Midterm Exam | (200 points) |
| 3. Final + Quizzes + Project | (200 points) |
| 4. Final + Midterm Exam + Quizzes + Project | (300 points) |

Your final grade will be the best grade of the four curves. The makeup for the midterm exam is administered during the last week of classes.

Outline: The following is a tentative week-by-week listing of reading assignments along with a notation of some of the more important concepts and topics.

Weeks 1 - 2: Chapters 1, 2, and 3
Why Study Money, Banking, and Financial Markets; Asymmetric Information: Adverse Selection and Moral Hazard; Financial Markets; Functions of Money; Definitions of Money

Weeks 3 - 6: Chapters 4, 5, 6, 7, 8, 22 (pp. 524-527), and 29 (Quiz 1: Thursday, February 22)
Interest Rate Levels; Portfolio Choice; Asset Markets; Risk and Term Structure of Interest Rates; Exchange Rates; Rational Expectations and Efficient Markets

Weeks 7 - 9: Chapters 9, 10, 11, 12, 13, and 14 (Preliminary Examination of Articles for the Project: Tuesday, March 12; Exam: Thursday, March 14)
Puzzles of Financial Structure; Financial Innovation; Banking Management; Banking Structure; Banking Regulation; Other Financial Institutions

Weeks 10 - 11: Chapter 15, 16, and 17
Multiple Expansion, Money Supply Model

Weeks 12 - 14: Chapters 18, 19, 20, 21, 22 (pp. 519-523), 23 (pp. 543-551), and 30 (pp. 523-530) (Quiz 2: Thursday, April 18)
Federal Reserve System; Monetary Base Determination; Tools of Monetary Policy; Conduct of Monetary Policy; Rational Expectations and Monetary Policy

Final Exam: Saturday, May 11, 1996, Afternoon

Term Project: THE PROJECT IS DUE ON OR BEFORE TUESDAY, MAY 7. NO LATE PROJECTS ARE ACCEPTED. A PRELIMINARY EVALUATION OF A PART OF THE PROJECT IS DUE ON TUESDAY, MARCH 12.

You will analyze the course of the U.S. monetary policy from February 12 through May 3 as reported in the Wall Street Journal (WSJ) (or the New York Times).

1. A time-series graph, on a weekly basis, of the 1-year Treasury-bill rate, the 10-year Treasury-note rate, and the 30-year Treasury bond rate. The weekly averages are reported in the Tuesday WSJ under Key Interest Rates. Time-series graphs, on a daily basis, of the U.S. dollar spot and 90-day forward exchange rates versus the Japanese yen and the German mark. These data appear daily under Exchange Rates. Exchange rates should be stated in foreign currency (i.e., yen or marks) per U.S. dollar. A time-series graph, on a weekly basis, of the seasonally-adjusted M1, M2, and M3 stocks. The weekly numbers are reported in the Friday WSJ. Chapter 1 provides illustrations of time-series graphs.
2. Clip articles from the WSJ that help explain the developments in U.S. monetary policy. Please put the date of the article on the clipping. Underline the key sentence(s) in the article that is (are) most important or relevant. Attach each article to an 8 1/2 x 11 piece of paper. A sentence summary should be written below the article (this can be hand written, but should be neat). Substantive articles should deal with major aspects of the U.S. monetary policy. Articles that have been collected will be turned in for a preliminary evaluation on Tuesday, March 12. Failure to meet this deadline costs 10 points on the project.

Articles should not be clipped unless they involve some economic analysis -- e.g., recent monetary policy is inflationary because ... (Since the major purpose is to have you read about U.S. monetary policy on a daily basis, copies of articles, which can be done in an end-of-semester push, are not acceptable.)

3. Finally, write a 2 - 4 page typed paper summarizing the major events in U.S. monetary policy indicating, with reasons, what were the major causes.