



**Birla Institute of Technology & Science, Pilani**  
Hyderabad Campus

**FIRST SEMESTER 2020-2021**  
**Course Handout Part II**

Date: 17/08/2020

In addition to part I (General Handout for all courses appended to the timetable) this portion gives further specific details regarding the course.

*Course No.* : ECON F312  
*Course Title* : Money, Banking and Financial Markets  
*Instructor-in-charge* : Dr. Sunny Kumar Singh  
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*Instructor* : Dr. Sunny Kumar Singh and Salva K

**Scope and Objective of the Course:**

The main objective of the course is to make students display an understanding of news related to monetary policy and financial markets reported in newspaper, magazines and research reports. Students will also be familiarized with functioning and structure of the Commercial Banks, Central Banks, and Financial Institutions. Furthermore, students are expected to master techniques relating to interest rate calculations, exchange rate determinations, and appropriate levels of the money supply and price level. Some of the specific issues like Demonetization, Electronic Payment Systems, recent Banking and Financial Crisis, etc. will also be examined in details. The interaction between the goods, money and financial markets, as well as the interrelationship between the domestic and the international sector will also be analyzed. This course should be a step in developing students' abilities to work in the financial or banking sector, along with giving all students an increased appreciation of how the economy works.

**Textbooks:**

1. Mishkin Frederic S., "The Economics of Money, Banking and Financial Markets: Business School Edition", Pearson Education, Third Edition, 2015. (T1)
2. Mishkin Frederic S., "The Economics of Money, Banking and Financial Markets", Pearson Education, Eleventh Edition, 2016. (T2)

**Reference books**

1. Mishkin, F. S., Eakins, S. G., Jayakumar, T., and Pattnaik, R.K., "Financial Markets and Institutions" Pearson Education, Eighth Edition, 2017. (R1)
2. Hubbard, G. P., & O'Brien, A. P., Money, Banking, and the Financial System. Pearson Higher Education, First Edition, 2012. (R2)
3. Class Notes (Central Bank Reports, Newspaper Articles, Research Papers, Corporate Reports, Case Studies,



etc.)

**Course Plan:**

| Lecture No. | Learning objectives  | Topics to be covered   | Chapter in the Text Book       |
|-------------|--|--|--------------------------------|
| 1-2         | <b>Why Study Money, Banking, and Financial Markets?</b> The topic of money, banking, and financial markets directly affects our daily life - interest rates influence earnings on our savings and the payments on loans we may seek on a car or a house, and monetary policy may affect our job prospects and the prices of goods in the future. The study of money, banking, and financial markets will introduce the students to many of the controversies about the conduct of economic policy that are hotly debated in the political arena and will help them gain a clearer understanding of economic phenomena we hear about in the news media. | Introducing concepts like money, monetary policy, stock, bond, interest rate, inflation, exchange rate, business cycle, etc. | Chapter 1 (T1) and Class Notes |
| 3-4         | <b>An Overview of Financial System:</b> To study the effects of financial markets and financial intermediaries on the economy, one needs to acquire an understanding of their general structure and operations. After studying this chapter, students are expected to learn about the major financial intermediaries and the instruments that are traded in financial markets, as well as how these markets are regulated.   | Function, Structure, and Instruments of Financial Market; Financial Intermediaries   | Ch. 2 (T1), Class Notes        |
|             | <b>Understanding Interest Rate:</b> Understanding the phrase interest rate is quite important before one goes on with the study of money, banking, and financial markets. Through this chapter, students are expected to understand - the concept of   |  |                                |



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| 5-8   | yield to maturity (the most accurate measure of interest rates); types of yield to maturity and the method to calculate it; the distinction between interest rates and returns on bonds; the difference between real and nominal interest rates; the determinants of nominal interest rate; demand curves for bonds and money (by studying portfolio theory). Further, they will understand - why bonds with the same term to maturity have different interest rates (the concept of risk structure of interest rates), and the relationship among interest rates on bond with different terms to maturity (term structure of interest rates). | Measuring Interest Rates; the Behavior of Interest Rates; Risk and Term Structure of Interest Rates  | Ch. 4-6 (T1), Class Notes |
| 9-11  | <b>Understanding Financial Market Efficiency:</b> Students are expected to understand – the fundamental theories related to valuation of stocks which is crucial for understanding the forces that cause that cause the value of stocks to rise or fall; how expectations about stock market affect the stock valuation by examining theory of rational expectations; the concept of efficient market hypothesis which has some general implications for how markets in other securities besides stocks operate.   | Computing stock price; Theory of Rational Expectations; Efficient Market Hypothesis  | Ch.7 (T1), Class Notes    |
| 12-14 | <b>Economic Analysis of Financial Structure:</b> Students are expected to understand – how financial structure is designed to promote economic efficiency. They will also get to know some important concepts that enable them to explain certain features of the financial system, such as why financial contracts are written as they are and why financial intermediaries are more important than securities markets for getting funds to   | Adverse Selection; Moral Hazard; Financial Structure and Asymmetric Information; Asymmetric Information and Debt-Equity Financing; Financial | Ch.8 (T1), Class Notes    |

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|       | borrowers. The students will also get to know the important link between the financial system and the performance of the aggregate economy.   | Development and Economic Growth  |                            |
| 15-17 | <b>Banking and the Management of Financial Institutions:</b> After completing this chapter, students are expected to understand – how and why banks make loans, why they acquire funds and manage their assets and liabilities (debts), and how they earn income.   | Banks Balance Sheet; Credit Risk; Interest Rate Risk; Off-balance Sheet Activities   | Ch. 10 (T1), Class Notes   |
| 18-19 | <b>Economic Analysis of Financial Regulation:</b> Student are expected to understand – Why financial system is among most heavily regulated sectors of economy, how financial system is regulated around world, and how financial regulations can be used to prevent future economic and financial crisis.                          | Asymmetric Information and Financial Regulation (Government Safety Net; Capital Requirement; Restrictions on Asset Holdings; PCA; Disclosure Requirements; Macro and Micro prudential Regulations) | Ch. 11 (T2), Class Notes   |
| 20-22 | <b>Banking Industry: Structure and Competition:</b> Students will get to know - the development of the banking system and the role of financial innovation in increasing competitive environment for the banking industry; growth of international banking along with domestic banking; the concept of shadow banking.              | Development of Banking Systems; Financial Innovation; Shadow Banking; Banking Structure and Competition  | Chap. 12 (T1), Class Notes |
| 23-26 | <b>Economic Analysis of Financial Crisis:</b> Students are expected to answer questions such as – why have financial crises been so prevalent to the USA and other countries and what insight do they provide on the current crises? Why financial crises almost always followed by severe contractions in the economic activities? |  |                            |

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|       | <p>How is financial crises in developed countries different than emerging economies We will examine these questions in this chapter by developing a framework to understand the dynamics of financial crises in developed as well as developing countries. For this, we make use of agency theory, the economic analysis of the effects of asymmetric information (adverse selection and moral hazard) on financial markets and the economy, to see why financial crises occur and why they have such devastating effects on the economy. We will then apply the analysis to explain the course of events in a number of past financial crises throughout the world, including the most recent global financial crisis.</p> | <p>Dynamics of financial crisis in developed countries and emerging economies; The great depression; The global financial crisis 2007-09; Financial crisis in Mexico, South Korea and Argentina</p>                                    | <p>Ch.7 (T1),<br/>Ch. 21 (R1)<br/>Class Notes</p> |
| 27-30 | <p><b>Money and Central Banking:</b> Students are expected to understand – the effects of money on the economy; the concept of money (its function, evolution and measurement); the evolution of electronic payment systems; effect of demonetization of Indian economy; the institutional structure of major central banks with particular focus on the RBI; behavior of central banks; structure and independence of major central banks; concepts of money supply and its process; determinants of money supply; process of money creation by banking system.</p>  | <p>Function, Evolution, Types; Electronic Payment Systems; Demonetization; RBI – Origin and Structure; Central Bank Independence; FRB, ECB; Money Supply Process; Understanding the Central Bank’s Balance Sheet; Money Multiplier</p> | <p>Ch. 3 &amp; 16-17 (T1),<br/>Class Notes</p>    |
| 31-34 | <p><b>Understanding Monetary Policy Process:</b> This module is specifically focused on the making of monetary policy. After completing this chapter, the students are expected to understand – various tools (CRR, SLR, Open Market Operation, Repo and Reverse Repo) to conduct</p>   | <p>Tools of Monetary Policy; Conventional and Unconventional Monetary Policy; Objective, Instruments &amp; targets of Monetary Policy;</p>   | <p>Chapter 18-19 (T1),<br/>Class Notes</p>        |

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|       | monetary policy; effect of monetary policy on money supply and interest rate; use of inflation targeting as effective monetary policy strategy; evolution of the RBI monetary policy over the years.  | Monetary Policy Strategy; Inflation Targeting around the World; RBI Monetary Policy Strategy                                |                             |
| 35-38 | <b>Monetary Theory:</b> This module is designed to explain various theories related to monetary economics (the effect of money and monetary policy on the economy). Particularly, the students are expected to know – quantity theory and its link to money demand; determinants of money demand with some empirical evidence on stability of money demand function; building block to understand aggregate demand (AD) and the IS curve; use of IS curve to understand the role of monetary policy in economic fluctuations; Monetary Policy in the AD-AS framework; monetary transmission mechanism; inflation-unemployment tradeoff. | Quantity Theory of Money; Demand for Money and Inflation; Monetary Policy & AD-AS Analysis; Monetary Transmission Mechanism | Ch. 19-22 (T2), Class Notes |
| 39-42 | <b>Issues in International Finance:</b> The students are expected to understand – Foreign exchange market; Purchasing power parity; Determinants of Exchange rate; Interest parity condition; Various exchange rate regime.   | Foreign Exchange Market; International Financial System   | Ch. 20-21 (T1), Class Notes |

#### Evaluation Scheme:

| Component | Duration (Minutes) | Weightage (%) | Date & Time   | Nature of Component |
|-----------|--------------------|---------------|---|---------------------|
| Test 1    | 30                 | 10            | September 10 – September 20 (During scheduled class hour) | Open Book           |
| Test 2    | 30                 | 15            | October 09 – October 20 (During scheduled class)          | Open Book           |



|                                      |      |    |   |           |
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|                                      |      |    | hour)   |           |
| Test 3                               | 30   | 15 | November 10 –<br>November 20<br>(During<br>scheduled class<br>hour) | Open Book |
| Group<br>Presentation/Assignmen<br>t | TBA  | 20 |   | Open Book |
| Quizzes                              | 5-10 | 10 |   | OB        |
| Comprehensive<br>Examination         | 120  | 30 | TBA   | OB        |

**Consultation Hour:** TBA.

**Notices:** All notices will be displayed on CMS and Economics & Finance Notice Board.

**Make-up Policy:** Make-up will be granted only on genuine grounds and if prior permission is taken through official email only. Request for make up after the test/exam would not be entertained at all.

**Academic Honesty and Integrity Policy:** Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

**INSTRUCTOR-IN-CHARGE**  
**ECON F411**

