



Birla Institute of Technology & Science, Pilani
Hyderabad Campus

FIRST SEMESTER 2021-2022
Course Handout Part II

Date: 20/08/2021

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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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: Global Edition", Pearson Education, Twelfth Edition, 2019. (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	Why Study Money, Banking, and Financial Markets? 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
3-5	An Overview of Financial System: 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
	Understanding Interest Rate: 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 yield to maturity (the most accurate		



6-9	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
10-13	Understanding Financial Market Efficiency: 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
13-16	Economic Analysis of Financial Structure: 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 borrowers. The students will also get to	Adverse Selection; Moral Hazard; Financial Structure and Asymmetric Information; Asymmetric Information and Debt-Equity Financing; Financial Development and	Ch.8 (T1), Class Notes

	know the important link between the financial system and the performance of the aggregate economy.	Economic Growth	
17-20	Banking and the Management of Financial Institutions: 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
21-22	Economic Analysis of Financial Regulation: 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
23-25	Banking Industry: Structure and Competition: 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
26-30	Economic Analysis of Financial Crisis: 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? How is financial crises in developed		

	<p>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), Ch. 21 (R1) Class Notes</p>
31-34	<p>Money and Central Banking: 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 & 16-17 (T1), Class Notes</p>
35-38	<p>Understanding Monetary Policy Process: 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 monetary policy; effect of monetary</p>	<p>Tools of Monetary Policy; Conventional and Unconventional Monetary Policy; Objective, Instruments & targets of Monetary Policy; Monetary Policy Strategy;</p>	<p>Chapter 18-19 (T1), Class Notes</p>

	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.	Inflation Targeting around the World; RBI Monetary Policy Strategy	
39-42	Issues in International Finance: 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	Weightage (%)	Duration (Minutes)	Date of Evaluation	Nature of Component
Midsemester Test	30%	90	22/10/2021 3.30 - 5.00PM	Open Book
Quizzes (1-2)	15%	15-20	TBA	Open Book
Group Assignment/Presentation	15%	NA	TBA	Open Book
Comprehensive Examination	40%	120	24/12 FN	Open Book

Consultation Hour: Every Saturday (11.00 AM – 12.00 AM).

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

Make-up Policy: Make-up will be given only on Doctor's/Warden's recommendation and with prior (at least 01 days before the test/exam) permission of the Instructor in Charge/Instructor. Request for makeup made by phone/SMS or during/after the test/exam would **NOT** be entertained at all.

**INSTRUCTOR-IN-CHARGE
ECON F411**

