**BCOM 331: Money and Banking Course Outline**

Few countries escaped the global financial crisis and its effects. The crisis, blamed on the excessive risk taking by Banks and other financial institutions have made it ever more imperative to understand the role of banks, and the major asset that they deal with- cash/ money. Even money has not been without its crisis- we have had major currency crisis from Mexico, Argentina, Russia, and most of all the Asian currency crisis of 1998. This course is designed to develop an understanding of money and banking in the modern context. Content include,

* The financial system.
* Money and the payments system.
  + Do we need money?
  + The Key functions of money.
  + The payments system.
  + Measuring money supply.
  + Quantity theory of money (Overview).
  + Money and Inflation (Overview).
* The historical evolution of money and the payment system.
  + The evolution of money and banking.
* Theory of money.
  + The Demand for Money.
  + ISLM Model.
  + Monetary and Fiscal Policy in the ISLM Model.
  + Aggregate demand and supply analysis.
  + Currency crisis: Case study.
* Central banking and the Conduct of Monetary policy.
  + Central Banks.
  + The Money Supply Process.
  + The goals of monetary policy.
  + Tools of Monetary Policy.
  + The Conduct of Monetary Policy: Strategies and Tactics.
  + Transmission mechanism of monetary policy.
* Commercial Banking
* Non-banking institutions.
* Banks and Kenya’s development.
* The code of banking.

**KEY TEXTS**

* Mishkin, Frederic S. The economics of money, banking, and financial markets / Frederic S. Mishkin.—7th ed. p. cm. — (The Addison-Wesley series in economics)
* Belke/ Polleit (2009), Monetary Economics in Globalised Financial Markets, Springer-Verlag Berlin.
* Hubbard, R. Glenn (2012). Money, banking, and the financial system. Prentice Hall. NY.
* Freixas, Xavier (1999). Microeconomics of Banking. The MIT Press. Cambridge MA, USA.

**ASSIGNMENT 1 (due 15/2/2012)**

What is commodity money? How does it differ from fiat money?

In November 2009, the government of North Korea announced that it was replacing the existing currency with a new currency. The government would allow people to exchange only a limited amount of the old currency for the new currency. It was argued that the action amounted to seizing most of its citizen’s money and savings.

a. Why would limiting the amount of old currency that could be exchanged for new currency result in the North Korean government’s having seized its citizens money and savings? (4 mks)

b. How might people in North Korea act to reduce the impact of this government move? (4 mks)

Trace the historical evolution of money and the payments system/ banking up to the modern era. (12 mks)

**ASSIGNMENT 2 (due 15/3/2012)**

What is the difference between dynamic open market operations and defensive open market operations? What are the differences in the ways these two types of open market operations are carried out? (8 mks)

What advantages do open market operations have over other policy tools? (4 mks)

What is quantitative easing? Why did the USA government use it during the financial crisis of 2007–2009? (3 mks)

**ASSIGNMENT 3** will be given in class to be attempted in groups.