

Syllabus from Spring 2024, to be updated for Spring 2025.

University of Chicago
Booth School of Business
Business 33401 – Money & Banking

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Teaching Assistants: TBD

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COURSE DESCRIPTION:

This class covers the impact of central banks and regulation on money and credit as they move through the financial system, highlighting the fragilities revealed in recent crises. We will assess the policy tools used by central banks to influence output, employment, and inflation/deflation as well as the scope and effectiveness of government regulation of banking and financial markets. We will analyse what has caused the sharp rise in inflation and debate whether the Fed and other central banks will be able to bring down inflation without a recession. We will draw on the Global Financial Crisis of 2008/09, disruptions due to COVID-19, the collapse of Silicon Valley Bank (SVB) and regional banking turmoil, as well as recent geopolitical conflicts to illustrate the interconnections across countries and markets and evaluate whether the monetary and regulatory policy responses have helped to make the global system more or less stable. The goal is to provide an economic framework to help students understand the sources of the fragilities and better navigate and prepare for economic and financial turbulence.

GRADING:

The course grade will be based on weekly graded homework assignments (20 percent), class participation (10 percent), in-class midterm (30 percent), and in-class final (40 percent). The final is comprehensive.

Please be sure to bring your name card each week since part of your grade will be based on class participation.

You will have short written homework assignments due at the beginning of the first class and each week thereafter, except the week of the midterm. You will be able to drop one assignment with the lowest grade in the calculation of your overall homework grade. **For each assignment, feel free to discuss the homework questions with other students in the class but your homework must be written in your own words.** Please submit your homework through Canvas before class. If you have any trouble with Canvas, please inform the TAs and bring a print-out to turn in at the beginning of class.

Students are required to adhere to the standards of conduct in the Booth School Honor Code and Standards of Scholarship at all times. On each exam and written assignment, you will be asked to sign the pledge: "I pledge my honor that I have not violated the Booth Honor Code."

EXAMS:

The Midterm Exam will be in class in week five of the quarter. The Final Exam will be given during the regularly scheduled exam time at the end of the quarter. If you take the class Pass/Fail, you must take **both** the midterm and the final. Make-up exams will be given only in special circumstances where the student has received prior approval or where the student has a doctor's note. For students starting jobs or internships before the regularly scheduled final exam times, please contact the TAs in advance to make arrangements.

If you have any questions concerning how an exam was graded, within two weeks you must submit an explanation in writing or via email about what you believe the problem to be and submit the exam itself. We reserve the right to regrade the entire exam.

ACCOMODATIONS:

If you require any accommodations for this course, please provide Professor Kroszner with a copy of your Accommodation Determination Letter (provided to you by the Student Disability Services office) to determine how your accommodations may be implemented in this course. The University of Chicago is committed to ensuring the full participation of all students in its programs. If you have a documented disability (or think you may have a disability) and, as a result, need a reasonable accommodation to participate in class, you may contact the Student Disability Services office at 773-702-6000/TTY 773-795-1186 or disabilities@uchicago.edu, or visit the website at disabilities.uchicago.edu. Student Disability Services is located at 5501 S. Ellis Avenue.

COURSE MATERIALS:

The text is the newest (13th) edition of Frederic Mishkin's *The Economics of Money, Banking, and Financial Markets*. Mishkin and I overlapped on the Fed Board so he shares my "inside" central bank view of the crisis. **W**e will also draw on Chapter 2 of my short book with Robert J. Shiller, *Reforming U.S. Financial Markets: Before and Beyond Dodd-Frank*, MIT Press.

The bulk of the reading will be drawn from a variety of articles relating to the crisis, regulatory reform, and current challenges in monetary and regulatory policy. Note that many of the readings are either short excerpts from longer articles or recent newspaper articles so it is not quite as much as it may appear at first. Reading the material in advance of each class will be crucial for effective class participation.

I will provide a weekly note that highlights what to focus on in the readings as well as detailed description of the assignments. Given the ever changing world of money and banking, I may update readings with new articles covering current events relevant to class. In addition, I will provide class notes. All of the materials will be available on Canvas.
<http://canvas.uchicago.edu/>

Please be sure to be reading the *Financial Times*, *Wall Street Journal*, and *The Economist* to keep up with dynamic worlds of central banking and financial regulatory reform.

USE OF COURSE MATERIALS AT BOOTH:

The material in the course documents (including the syllabus, class notes, assignments, exams, handouts, etc.) is confidential, privileged, copyrighted, and only for the information of the students registered for the course. These materials may not be used, published or redistributed without the prior written consent of the Booth faculty member teaching the course.

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READINGS AND COURSE OUTLINE

Readings marked with "*" are recommended, not required.

I.  WHAT ARE THE KEY SOURCES OF FINANCIAL FRAGILITY? HOW DID CENTRAL BANKS RESPOND TO THE 2008/09 CRISIS AND COVID-19? WHAT CHALLENGES DOES THE FAILURE OF SILICON VALLEY BANK POSE? IS THE REGIONAL BANKING TUMULT OVER?

Diamond and Rajan, "The Credit Crisis"

Kroszner and Melick, "The Response of the Federal Reserve to the Recent Banking and Financial Crisis" (read first five pages plus Tables 1 and 2, skim the rest)

Bernanke, "The Crisis and Policy Response"

Draghi, Speech at Global Investment Conference in London, 26 July 2012 (skim)

Bird and Whittall (*WSJ*), "The Speech That Transformed European Markets, Five Years Later"

Kinder, Gara, Franklin and Hammond (*Financial Times*), "Silicon Valley Bank: the spectacular unravelling of the tech industry's banker"

Santilli and Benedict (*WSJ*), Silicon Valley Bank's Meltdown Visualized

Bradham (*Bloomberg*), "A Year Since SVB's Tumult, NYCB Has Focus Back on Regional Banks"

FT Lex, "NYCB has only bought time with \$1bn lifeline"

The Economist, "The Fall in Interest Rates"

*The Economist, "China leads in precision-guided central banking. Does it work?"

*Mishkin, Chapters 1, 2, and 4 (just skim these chapters)

II.  WHAT IS THE RELATIONSHIP BETWEEN FINANCIAL DEVELOPMENT, GROWTH, AND VOLATILITY? HOW DO RUNS OCCUR IN A MODERN INTERCONNECTED FINANCIAL SYSTEM? ARE THERE PARALLELS TO SUPPLY CHAIN DISRUPTIONS?

Kroszner, "Stability, Growth and Regulatory Reform" (read intro and Section 1)

*Arcand, Berkes and Panizza (2015), "Too Much Finance?", *Journal of Economic Growth*

Shin, "Reflections on Modern Bank Runs: A Case Study of Northern Rock"

Brannemeier, "Deciphering the Liquidity and Credit Crunch 2007-08" (read pp.

1-2 and 19-27)

Alan Beattie (*Financial Times*), “Will coronavirus pandemic finally kill off global supply chains?”

Sean McLain (*WSJ*), “Auto Makers Retreat From 50 Years of ‘Just in Time’ Manufacturing”

Mishkin, Chapters 10 and 11

Kroszner, “Strategic Risk Management in an Interconnected World”

Kroszner, “Liquidity Risk Management in the Business of Banking”

Andrew Ackerman (*WSJ*), “Federal Reserve Retools Capital Rules for Largest U.S. Banks”

* Jacky Wong (*WSJ*), “China is Stockpiling for Next Phase of the Chip Wars”

* Costas Paris (*WSJ*), “Two Canals, Two Big Problems – One Global Shipping Mess”

*The Economist, “After a turbocharged boom, are chipmakers in for a supersize bust?”

*The Economist, “Beyond Basel: America raises capital requirements for banks, widening the gulf with Europe”

*Frangos (*WSJ*), “China’s Lenders to Play Bigger Role in Calculating Regulatory Capital”

*Financial Times (Rabinovitch), “Central bank steps in to calm China bank run”

III. WHAT ARE THE LESSONS OF THE CRISIS FOR ENTERPRISE RISK MANAGEMENT, CAPITAL REGULATION, AND LIQUIDITY? WHAT SPECIAL ROLE DO BANKS PLAY IN THE FINANCIAL SYSTEM? ARE THERE UNINTENDED CONSEQUENCES OF REGULATION? SHOULD WE BREAK UP THE BIG BANKS AND/OR RESTRICT THEIR ACTIVITIES?

Mishkin, Chapters 8, 9 and 11 (skim)

James and Weir, "Are Bank Loans Different?"

Lummer and McConnell, "Further Evidence on the Bank Lending Process and the Capital Market Response to Bank Loan Agreements"

*Saidenberg and Strahan, “Are Banks Still Important?”

Kroszner and Shiller book, Chapter 2, “Making Markets More Robust”
(read pp. 51-56 and 68-77 and skim the rest)

Kroszner, “Stability, Growth and Regulatory Reform” (read Sections 2 to 6)

Kroszner, “Rethinking Bank Regulation: A Review of the Historical Evidence”

Vinals and IMF Staff, “Creating a Safer Financial System: Will the Volcker, Vickers, and Liikanen Structural Measures Help?”

The Economist, “Volcker Plus”

Tarullo, Testimony on the Volcker Rule (excerpt)

Tarullo’s speech (April 4, 2017) on his revised view of Volcker Rule (excerpt)

Sorkin (*NYTimes*), “One Thing Both Parties Want: To Break Up the Banks Again”

Sorkin (*NYTimes*), “Reinstating an Old Rule Is Not a Cure for Crisis”

Jesse Hamilton (*Bloomberg*), "Banks Get Easier Volcker Rule and \$40 Billion Break on Swaps"

The Economist, "How resilient are the banks?"

Kroszner (*Financial Times*), "A Shipping Disaster's Lessons for Dodd-Frank"

*Kroszner, "The Effect of Removing Geographic Restrictions on Banking in the United States: Lessons for Europe"

IV. WHAT IS THE ORIGIN OF MONEY AND HOW WILL IT EVOLVE IN THE FUTURE? HOW DOES THE MONEY CREATION PROCESS WORK? WILL CRYPTO-CURRENCIES REPLACE TRADITIONAL CURRENCIES?

Mishkin, Chapters 3 and 13

Radford, "Money in a Prisoner-of-War Camp"

Kroszner, "The Future of Banks: Will Commercial Banks Remain Central to the Financial System?"

Da Costa (*WSJ*), "Could Machines Put Central Bankers Out of a Job?"

Andreessen, "Why Bitcoin Matters"

Norton (*WSJ*), "CIO Explainer: What Is Blockchain?"

Sindreu (*WSJ*), "The Central Bankers' Bold New Idea: Print Bitcoins"

Adam Samson and Brooke Masters (*Financial Times*), "Binance crackdown: regulators tussle with 'wild west' of crypto"

Miles Kruppa and Gary Silverman (*Financial Times*), "Regulators begin to grapple with DeFi"

Siddharth Venkataramakrishnan (*Financial Times*), "Circle listing will test top stablecoin's transparency over reserves"

Ali et al., "The Economics of Digital Currencies"

James T. Areddy (*WSJ*), "China Creates Its Own Digital Currency, a First for Major Economy"

*Markus Brunnermeier (*Financial Times*), "Four key questions central banks must answer about digital currencies"

*Izabella Kaminska (*Financial Times*), "Why Bitcoin isn't always deflationary"

*Thomas and Manson (*Financial Times*), "Africa's Digital Money Heads to Europe"

*Iansiti and Kakhani, "The Truth about Blockchain"

V. THE FEDERAL RESERVE SYSTEM AND THE CONTROL OF THE MONEY SUPPLY

Mishkin, Chapters 12 – 15

*Gorton and Huang, "Banking Panics and the Origin of Central Banking"

VI. MONEY DEMAND AND THE QUANTITY THEORY

Mishkin, Chapter 18

*Small and Porter, "Understanding the Behavior of M2 and V2"

* Friedman, "Quantity Theory of Money"

VII. REAL ACTIVITY, INFLATION, AND DEFLATION: CRISIS RESPONSE AND ASSET PURCHASE PROGRAMS

Mishkin, Chapters 19, 22, 23, pp. 98-112 of Chapter 5, and pp. 390-97 of Chapter 16

*San Francisco Fed, "Why did the Federal Reserve start paying interest on reserve balances held on deposit at the Fed?"

Bernanke, "Deflation: Making Sure 'It' Doesn't Happen Here"

*Bernanke, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression"

*Vyas (WSJ), "How Fast Are Prices Skyrocketing in Venezuela? See Exhibit A: the Egg"

Friedman, "The Role of Monetary Policy"

*Mankiw and Reis, "Friedman's Presidential Address in the Evolution of Macroeconomic Thought"

Financial Times (Davies), "Federal Reserve's fundamental rethink about inflation"

Rosengren, "Central Bank Balance Sheets: Misconceptions and Realities"

VIII. MONETARY MISCHIEF OR MACRO AND FINANCIAL STABILITY? ASSESSING ZERO/NEGATIVE INTEREST RATE POLICY, MONETARY POLICY RULES, COMMUNICATIONS STRATEGIES, AND EXIT

Mishkin, Chapters 13, 15 (focus on pp. 357-365), and 16 (focus on pp. 390-396)

Bernanke, "Monetary Policy and the Housing Bubble"

Taylor, "The Fed and the Crisis: A Reply to Bernanke"

Ahamed, "Introduction" to Lords of Finance

*James Mackintosh (WSJ), "Do Negative Rates Work? Yes, but Not by Much"

Kroszner, "The New Tell-All Fed"

*Kroszner, "Can the Central Bank Achieve Financial Stability Goals with Traditional Monetary Policy Tools?"

Kroszner, "Central Banks Must Time a Good Exit"

*Taylor, "Time Inconsistency: A Potential Problem for Policy Makers"

*IMF Global Financial Stability Report, "Quantitative Easing in the Euro Area and Japan: What Are the Channels and Risks? (excerpt)