***ECONOMICS 225***

## Money and Banking

**Term 8 2016-2017**

### Professor Todd Knoop

**Office:** 201 College Hall

**Telephone:** 895-4208 (voice mail)

**e-mail:** tknoop@cornellcollege.edu

**web page:** <http://people.cornellcollege.edu/tknoop/>

**Class Times:** 9:00-11:30 Monday-Friday

1:00-2:30 Monday-Thursday (as needed)

**Office Hours:** 11:30-12:00 Monday-Friday and by appointment

**Required Texts:** (1) Frederick S. Mishkin, “The Economics of Money, Banking, and Financial Markets”, 11th edition (previous editions will also work).

(2) Todd A. Knoop, “Global Finance in Emerging Market Economies”, 1st edition (readings will be provided on Moodle).

**Quantitative Reasoning** Jessica Johanningmeier

**Consultant:** 125 Library

895- 4222 or [JJohanningmeier@cornellcollege.edu](mailto:JJohanningmeier@cornellcollege.edu)

Web page: <http://cornellcollege.edu/qrs/>

**Introduction:**

What is the one thing that separates countries that are growing from those which are not growing? An argument can be made that it is the efficiency of the financial markets within an economy that is the most significant factor separating rich countries from poor ones. The obvious importance of financial markets has never been clearer as we continue to observe the new and exponentially expanding web of financial linkages between countries. The recent 2008 global financial crisis and the European Debt Crisis of 2010-15 is a perfect example of how critical financial markets are to current and future growth.

The purpose of this class will be to not only describe but also to acquire some understanding of how financial markets function in both the U.S. and in other countries. A smoothly functioning financial system is like oil in the engine of an economy, ensuring that the economy operates smoothly by funneling the savings of households to firms, which turn these funds into investment. We will examine in detail exactly how this process works by investigating the following questions:

(1) How do financial markets, like the stock and bond markets, function?

(2) How do financial institutions, specifically banks, work and how are they managed?

(3) What is money and why is it important?

(4) What are interest rates and how are they determined?

(5) What is the Federal Reserve and how does it control monetary policy?

(6) How does monetary policy affect economic performance and what is the proper way to conduct monetary policy?

(7) Why are international financial markets, such as the foreign currency exchange markets, important and how do these markets work?

Financial markets affect you every single day, and as a result I think that the relevance of this course is extremely high. U.S. financial markets participate in the transfer trillions of dollars of funds, and the efficiency of these markets affect business cycles, the productivity of goods and services, economic growth, and, most importantly, standards of living. In addition, at a more personal level, if you want to wisely invest your future income (from, lets say, unemployment checks), a working knowledge of financial markets is crucial.

Because of this applicability to the real world, an active interest in current events will serve you well in this class by giving you a point of reference for our discussions. I encourage you to read the business section of any reputable publication such as *The Economist* or the *The Wall Street Journal* (the Cornellian does not count) and bring any relevant articles to class to share.

***Learning Objectives for this Course:*** This course supports the Educational Priorities and Outcomes of Cornell College (<http://www.cornellcollege.edu/about-cornell/mission/>) with emphasis on knowledge, inquiry, reasoning, communication, and vocation. Specifically, this course will require students to:

* develop analytical and critical thinking skills through a systematic investigation of global financial systems (inquiry, reasoning);
* develop quantitative literacy skills that allow us to address economic questions in a systematic manner in order to understand real world phenomena (inquiry, reasoning, vocation);
* better understand current issues in finance and become better consumers of economic financial information (knowledge and vocation);
* improve written communication skills (communication).

**Class Format**: I plan on using class time in the following manner. The morning sessions will consist of lecturing and class discussions from our main textbook, Mishkin. The afternoon sessions will primarily be used for four purposes. First, exams may be given during this time. Second, any lecture material not covered in the morning may be covered here. Third, class discussions will be conducted on any assigned readings outside of the textbook. Fourth, in-class problems sets will be worked on in an effort to review important concepts from the lectures.

**Grading:** Course grades will be determined by three classes of assignments and will be based on 450 possible points. I reserve the right to use my discretion at the margin and things such as class participation will be considered in borderline cases.

**(1) Exams:** Three midterm exams will be given. Each midterm will be worth 100 points. If a make-up exam is needed, a time must be arranged in advance of the test date.

**(2) Homeworks and Empirical Exercises:** Six shorter assignments will be given throughout the term for a total of 120 points. Some of these assignments will be straight problem sets. Three assignments will be quantitative and will require you to collect and analyze financial data. One objective of these exercises is to familiarize you to working with financial data and resources. Another important objective of these exercises is to build some basic quantitative literacy and data handling skills in fulfillment of the quantitative literacy requirements of an ECB major.

**(3) Class Participation:** Class participation will count for 30 points toward the final grade and will be assigned on the basis of both quantity and quality of participation. Topics that are important enough to find their way onto exams will definitely be reviewed extensively in class. If you miss a class it is your responsibility to find out what announcements and other materials or assignments were presented in class.

**Academic Honesty:** Academic dishonesty will not be tolerated and will be dealt with in the harshest manner that is still in accordance with Cornell’s regulations in the student handbook. Academic dishonesty can include the failure to properly document sources of information used in your work.

**Learning Disabilities*:*** Cornell College is committed to providing equal educational opportunities to all students.  If you have a documented learning disability and will need any accommodation in this course, you must request the accommodation(s) from [the instructor of the course] as early as possible and no later than the third day of the term.  Additional information about the policies and procedures for accommodation of learning disabilities is available on the Cornell web site at  <http://cornellcollege.edu/academic_affairs/disabilities/>.

**Cell Phones and Technology:** All cell phones are to be turned off and put away during class times. If I see you operating your cell phone during class, you will be asked to leave that day’s class immediately.

I am fine with using your computer to take notes, but if I observe you on the internet or engaging in any other activities that would distract your classmates, you will be asked to leave that day’s class and will not be allowed to bring your computer again.

**OUTLINE OF TOPICS AND READINGS**

Additional articles and topical readings will be assigned throughout the semester. These are available on the Moodle course page. The readings for Knoop (2013) will also be made available on Moodle.

# Section 1: Introduction to Money and Banking

Monday #1: Introduction M: Chapter 1

Overview of Financial System M: Chapter 2

Tuesday #1: Information and Credit Rationing Knoop

What is Money? M: Chapter 3

# Section 2: Financial Markets

Wednesday #1: What are Interest Rates? M: Chapter 4

Microfinance Knoop

Thursday #1: Determinants of Interest Rates M: Chapter 5

Term Structure of Interest Rates M: Chapter 6

Friday #1: The Stock Market M: Chapter 7

Asset Bubbles Knoop

# Section 3: Financial Institutions

Monday #2: How Banks Work M: Chapter 9

Islamic Finance Knoop

Tuesday #2: Overview of the Banking System M: Chapter 11

**Exam #1**

*Section 4: Central Banking and Monetary Policy*

Wednesday #2: Financial Crises M: Chapter 12

Banking Crises Knoop

2008 Global Financial Crisis assigned readings

Thursday #2: Debt Crises Knoop

Friday #2: The Federal Reserve M: Chapter 13

Monday #3: The Determinants of the Money Supply M: Chapter 14

Tuesday #3: Tools of Monetary Policy M: Chapter 15

Central Banking in Sub-Saharan Africa Knoop

Wednesday #3: **Exam #2**

**MOVIE NIGHT!!**

Thursday #3: Goals and Targets of Monetary Policy M: Chapter 16

Inflation and Central Bank Independence Knoop

# Section 5: International Financial Markets

Friday #3: Foreign Exchange Market M: Chapter 17

Monday #4: International Financial System M: Chapter 18

Undervalued Exchange Rates Knoop

Tuesday #4: The Chinese Financial SystemKnoop

Wednesday #4: **Final Exam**