FIN320: Money and Banking

*Driehaus College of Business, DePaul University*

Syllabus:: Autumn 2021 :: Section :: Time

*Instructor: Nancy Hammond, Ph.D., Adjunct Professor of Finance*

*Classroom:*

*Office Hours: Wednesdays 2:00pm-4:00pm and by appointment*

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Course Objectives (Learning Goals)

Money and banking are at the core of finance. We will learn: (1) how financial markets determine interest rates and why different assets earn different rates of return; (2) the economic functions of financial services firms; (3) how the central bank and financial services firms interact to create liquidity in the financial system; (4) the role of the central bank in the economy and the conduct of monetary policy; (5) how the shadow banking sector works and the problems it poses for our financial system; (6) how shocks like financial crises, flash crashes, dash for cash challenge our financial system and the role of regulation of financial services firms;

REQUIRED TEXTBOOKS

The Economics of Money, Banking, and Financial Markets, 13th edition

Available at the DePaul Bookstore.

<https://www.pearson.com/store/p/the-economics-of-money-banking-and-financial-markets/P100003054016>

The MyEconLab course ID.

Matthias Doepke, Andreas Lehnert, and Andrew Sellgren. Macroeconomics

Can be found online: [Matthias Doepke (northwestern.edu)](https://faculty.wcas.northwestern.edu/~mdo738/book.htm)

REQUIRED NEWS SOURCE

Recommended News Sources

Bloomberg News: <http://www.bloomberg.com>

Financial Times (free subscription available through Finance Department): https://registration.ft.com/corporate/signup/32N1HnaKZBMY1

CME Group **InFOCUS: What’s trending in futures and options?**  newsletter

*https://www.cmegroup.com/activetrader/offers/infocus?gclsrc=aw.ds&gclid=Cj0KCQjw5uWGBhCTARIsAL70sLJz2qYv2AxBMo4uCS\_wNHW11qUDPLRXgq\_ERGvDMXgqgcpUGdlYNV8aAtKYEALw\_wcB&gclsrc=aw.ds*

Teaching Philosophy

My goal is make you aware of the depth of our financial system, the importance of financial stability for the economy, the rich variety of money like assets like Fed Funds, Eurodollars, and US Treasury bills, and the central role of these money-like assets in our economy. In Chicago, we are blessed have neighbors like the CBOT and the CME Group which trade these assets daily. In this course you will learn how to calculate interest rates for different assets, and understand what the term structure of yields of US Treasury bills, notes, and bonds means for the economy. We will cover how financial markets and financial institutions work, the role of the Fed, and how fragilities like the run on repo and securitized banking in the 2008 financial crisis, the September 2019 repo spike, and the March 2020 dash for cash challenge regulators. The textbook as a framework and context for the course. Podcasts, articles by market participants, academics, financial markets, and Fed officials bring the text to life.

Grading [to be completed]

The grading is based on participation, MyEconLab assignments, and exams. You will be graded on the quality and timeliness of your work, with an emphasis on how well you apply the concepts learned in class. Specifically, grading on the projects will take into consideration quality of analysis as well as quality of organization and communication. Final grades will be based on the following scale: A: 94-100%; A-: 90-93%; B+: 87-89%; B: 83-86%; B-: 80-82%; C+: 77-79%; C: 73-76%; C-: 70-72%; D+: 65-69%; D: 60-64%; F:

Below is the allocation on which your grade will be based. Note the importance of participation! Classroom Participation 1 5% [draft]

Online Participation 1 5%

MyEconLab 1 5%

Midterm Exam 20% (October 9 from 1:30pm to 3:00pm)

\*\* Mid-Point – How are you doing? \*\*

Classroom Participation 2 5%

Online Participation 2 5%

MyEconLab 2 5%

Final Exam 25% (November 20 from 2:30pm to 4:45pm)

1. Preliminaries 1

Mishkin 1

1. The financial system

Let me tell you a story Gorton and Metrick 2008 slides

Mishkin 8 An economic analysis of financial structure

Mishkin 9. The banking firm and the management of financial institutions

Mishkin 10. The banking industry: structure and competition

Doepke 17 Financial intermediation 17.1 Banking Basics

Exercises

1. Interest rates, growth rates and financial markets

Doepke 1 PreliminariesCompound Interest Growth Rates

Mishkin 4 Understanding interest rates

Mishkin 5 The behavior of interest rates

Exercises

1. Interest rates, money market instruments, and financial derivatives

Mishkin 6 The risk and term structure of interest rates

[Web Chapter 4: Financial Derivatives](https://media.pearsoncmg.com/ph/bp/bp_mishkin_econmbfm_11/webchapters/Mishkin11_Ch04_Web.pdf)

Chicago Mercantile Exchange (CME) Short term interest rate (STIR) money like assets: Fed Funds, Eurodollars, commercial paper, Tbills

Exercises Doepke, Mishkin, Veronesi

1. International finance Midterm

Mishkin 17 The foreign exchange market

Mishkin 18 The international financial system

Midterm review

Midterm or trading project?

1. Inflation, business cycles, and central banks

Mishkin 3. What is money

Doepke 8 Inflation

Doepke 9 Business Cycles, 9.1 Shocks and Propagation Mechanisms

Watch the Cleveland Fed’s three, animated 60-second videos. Learn what inflation is and isn’t and why understanding the difference matters. [http://clefed.org/Inflation101](https://t.co/rR8fc1hH67?amp=1)

Mishkin 13 Central Banks and the Federal Reserve System

Mishkin 14 The Money Supply Process

Mishkin 15 Tools of Monetary Policy

Mishkin 16 The Conduct of Monetary Policy: Strategy and Tactics

Exercises

1. Central banks, monetary and fiscal policy

This module sets out the US monetary system and the role of the Fed. Treasuries, Fed funds, and the new overnight interest rate (OIS) SOFR, Eurodollars, and other short term interest rates. We will look at the dash for cash episode in March 2020, a period of volatility and flight to cash.

Mishkin 23 Monetary Policy Theory

Mishkin 24 The Role of Expectations in Monetary Policy

Mishkin 25 Transmission Mechanisms of Monetary Policy

Mishkin 26 Money and inflation

CME Fed Watch Tool, many sites

<https://www.cmegroup.com/education/courses/understanding-stir-futures/introduction-to-cme-fed-watch.html>

LaSalle Street podcast: Treasury market structure

<https://www.chicagofed.org/publications/lasalle-street-podcast/treasury-market-structure>+

The Lasalle Street podcast The Treasury Market is an excellent overview of what happened. Asset managers traded basis Flight to quality to quality to Treasuries then to basis trade. People were moving to cash, no dealer cash quotes. Edit

In this episode, experts from industry, academia, and government discuss the operations of and recent stresses in the U.S. Treasury market. First in September 2019, repo rates shot up by hundreds of basis points as a tax due date and a Treasury auction strained the supply of liquidity. Then in March 2020, the functioning of the Treasury market became severely stressed amid the widening pandemic.

CME notes March 2020

Exercises

* See Barro notes;
* See Doepke notes on monetary and fiscal policy
* See Cochrane The fiscal theory of the price level

9 Financial Institutions and wholesale banking

Mishkin 8 An Economic Analysis of Financial Structure

Mishkin 9 Banking and the Management of Financial Institutions

Mishkin 10 Economic Analysis of Financial Regulation

Mishkin 11 Banking Industry: Structure and Competition

Mishkin 12 Financial Crises

Mishkin [Web Chapter 3: Nonbank Finance](https://media.pearsoncmg.com/ph/bp/bp_mishkin_econmbfm_11/webchapters/Mishkin11_Ch03_Web.pdf)

Gorton and Metrick Run on Repo <https://www.nber.org/system/files/working_papers/w15223/w15223.pdf>

Morgan Ricks. The Money Problem Rethinking Financial Regulation

<https://press.uchicago.edu/ucp/books/book/chicago/M/bo22438821.html>

Zoltan Poszar, Tobias Adrian, [Adam Ashcraft](https://www.newyorkfed.org/research/economists/ashcraft/index.html), and Hayley BoeskyShadow banking <https://www.newyorkfed.org/research/epr/2013/0713adri.html>

Exercises

10 Crypto

Crypto and monetary policy J.C. Pieters

Rauch <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/2nd-global-cryptoasset-benchmark-study/#.YMI2LPlKhlM>

Blandin, Peters … …

https://www.researchgate.net/publication/344626767\_2020\_CCAF\_3rd\_Global\_Cryptoasset\_Benchmarking\_Study/link/5f856237299bf1b53e23071c/download

ww.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/3rd-global-cryptoasset-benchmarking-study/

Should central banks offer digital currencies and accounts to retail clients? Watch @MarkusEconomist discuss how technological advances might transform traditional approaches to money and central banking: <https://t.co/D0eiabBRKM>  
(<https://twitter.com/PrincetonEcon/status/1405875443463385098?s=03>)

Lasalle Street podcast: <https://www.chicagofed.org/publications/lasalle-street-podcast/clearinghouse-risk>. Christophe Giancarlo, "CryptoDad", visits LaSalle Street to discuss his reflections a year after leaving the CFTC, key issues he faced during his tenure, and emerging issues shaping the markets today. The conversation includes discussion of clearinghouse risk and the work of the Financial Stability Board, the risks embedded in reference rates, and why regulators should be investing time in the future of digital currency.

Final exam review

11 Final exam

<https://www.pearson.com/us/higher-education/product/Mishkin-Economics-of-Money-Banking-and-Financial-Markets-The-11th-Edition/9780133836790.html>

***Description***

<https://media.pearsoncmg.com/ph/bp/bp_mishkin_econmbfm_11/companion_website_11/index.html> l Framework for Understanding Financial Markets

***The Economics of Money, Banking and Financial Markets*** brings a fresh perspective to today’s major questions surrounding financial policy. Influenced by his term as Governor of the Federal Reserve, Frederic Mishkin offers students a unique viewpoint and informed insight into the monetary policy process, the regulation and supervision of the financial system, and the internationalization of financial markets.

Continuing to set the standard for money and banking courses, the **Eleventh Edition** provides a unifying, analytic framework for learning that fits a wide variety of syllabi.  Core economic principles organize students' thinking, while current real-world examples keep them engaged and motivated.

Closely integrated with the text, MyEconLab offers students the ability to study and practice what they’ve learned. Students can watch over 120 mini-lecture videos presented by the author, work problems based on the latest data in the Federal Reserve Bank of St. Louis’s FRED database, and more.

**Also available with MyEconLab®**

MyEconLab is an online homework, tutorial, and assessment program designed to work with this text to engage students and improve results. Within its structured environment, students practice what they learn, test their understanding, and pursue a personalized study plan that helps them better absorb course material and understand difficult concepts.

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