

Econ 335 Money and Banking

SUMMER 2017

Instructor: Sid Sanghi

Time and Location: Monday-Friday 3:00pm - 4:45pm (July 17 to August 17); Lab Sciences 201

Contact: sanghi@wustl.edu; Seigle Hall 355

Office Hours: Right after class or by appointment

Course Description

This is an introductory class in Money & Banking, a sub-field in (macro)economics. We will focus upon the theoretical and empirical aspects of money, the monetary system, and the banking system. We will study interest rates, inflation, the functions of the central bank, and the roles of monetary policy.

Prerequisites: Introductory macroeconomics and microeconomics (e.g. Econ 1011 and Econ 1021).

Textbook

The required textbook is *The Economics of Money, Banking, and Financial Markets*, 11th edition by Frederic Mishkin. I will also post additional readings¹, most of which are taken from magazines and newspapers, on Blackboard (bb.wustl.edu). *The Wall Street Journal*, *The Economist* and *The New York Times* are also recommended for outside reading.

Grading

Your grade will be determined by three *non-cumulative* in-class exams, case debate, and class participation. Pop quizzes will be given in class randomly, but they will not count towards your final grade. However, your score in pop quizzes will be taken into consideration in the event of a borderline final grade. In addition, homework questions will be announced every day after lecture and will be discussed the following day in the beginning of the lecture. Homework will not be graded directly so you do not need to hand it in, however, the discussion count towards class participation and it also provides some practice for the exams.

- Three exams count towards 60% of your final course grade. There will be no make-up for the missed final (exam 3). Only university-approved excuses can be accepted for missing an exam, and it is your responsibility to notify me at least *three days before* the exam; otherwise, the exam score will be recorded as a zero. Please talk to me as early as possible if you are going to miss any exam so that we can reschedule a make-up. Make-up exams must be completed within 2 days of the exam date. If this cannot be accomplished- and if you have a valid excuse- then your other exams will be re-weighted in your semester grade.

¹These additional readings help to bridge the formal theories with applications to the real world. Not all of the posted readings will be covered in class; however, the ones that get covered in class can be asked in the exams.

- Case debate counts 25% of the final grade. We will talk more about this part as class continues.
- Class participation counts 15% towards your final grade.
- If you take this class for “pass/fail”, you must earn at least a C- in order to receive a passing grade.

Academic Integrity

You are held to the standards of academic integrity established by Washington University and your individual college. In particular, evidence of cheating on an exam will result, initially, in a failing grade on the exam, and immediate academic disciplinary action. If you ever feel that these standards of academic integrity are not being met, please notify me or an undergraduate advisor immediately. If you are uncertain about the policy on academic integrity at Washington University, refer to Undergraduate Student Academic Integrity Policy.

Washington University is committed to providing accommodations and/or services to students with documented disabilities. Students who are seeking support for a disability or a suspected disability should contact Disability Resources at 935-4153. Disability Resources is responsible for approving all disability-related accommodations for WU students, and students are responsible for providing faculty members with formal documentation of their approved accommodations at least two weeks prior to using those accommodations. Please talk to me within the first week of the class if you are considering applying for Disability Resources VISA, and I will accept forms by email and personal delivery. If you have already been approved for accommodations, I request that you provide me with a copy of your VISA within the first week of the class.

Tentative Course Outline

Week 1: Overview of the Financial markets

- 7/17: Intro & Overview of the Financial system (Chapter 1 & 2)
- 7/18: Intro & Overview of the Financial system (Chapter 1 & 2)
- 7/19: Understanding Interest Rates (Chapter 4)
- 7/20: The Behavior of Interest Rates (Chapter 5)
- 7/21: The Risk and Term Structure of Interest Rates (Chapter 6)
- Further Readings
 - The Economist: “Over the counter, out of sight”
 - Christensen: “Treasury Bond Yields and Long-Run Inflation Expectations”
 - Neely: “The Mysterious Greek Yield Curve”

Week 2: Financial Institutions

- 7/24: Debate 1
- 7/25: **Exam 1**
- 7/26: The Efficient Market Hypothesis (Chapter 7)
- 7/27: Management of Financial Institutions (Chapter 9)
- 7/28: Financial Crisis (Chapter 12)
- Further Readings
 - Shin: “Financial Markets: An Engine for Economic Growth”
 - Greenwood, Sanchez, Wang: “Quantifying the impact of financial development on economic development”
 - Wheelock: “Too big to fail: The Pros and Cons of Breaking Up Big Banks”
 - James: “Mortgage-Backed Securities: How Important is “Skin in the Game”?”

Week 3: Monetary Policy and Monetary Theory

- 7/31: Financial Regulation (Chapter 10)
- 8/1: What is Money? (Chapter 3)
- 8/2: Class visit to the Newman Money Museum
- 8/3: Central Banks and Federal Reserve System (Chapter 13)
- 8/4: Debate 2
- Further Readings
 - Lucas: “What Economists do”

Week 4: The Conduct of Monetary Policy

- 8/7: **Exam 2**
- 8/8: Money Supply Process (Chapter 14)
- 8/9: Tools of Monetary Policy (Chapter 15)
- 8/10: The Quantity Theory, Inflation, and the Demand for Money (Chapter 19)
- 8/11: Movie: Inside Job
- Further Readings
 - Koech: “Hyperinflation in Zimbabwe”
 - Ennis and Wolman: “Excess Reserves and the New Challenges for Monetary Policy”

Week 5: Special topics

- 8/14: IS-LM Model (Chapter 20, Chapter 27 [Web], Further readings)
- 8/15: IS-LM Model – Continued
- 8/16: Review/Help session
- 8/17: **Exam 3**