Economics 3030: Money and Banking
Syllabus - Fall 2015

Contact Information

Instructor:  Dr. Zach Bethune
Office:  Monroe Hall 332
Email:  zab2t@virginia.edu  (by far the best way to get in touch, see note below)
Office Hours:  Tuesday/Thursday 2:00-3:00 p.m.

Course Times and Location

Classroom:  Monroe Hall 124
Time:  Tuesday/Thursday, 12:30 p.m. -1:45 p.m.

Teaching Assistant and Discussion

Instructor:  Gao Meng (gm2ud@virginia.edu)
Section 20368:  Thursday, 5:00-6:00 p.m., Monroe 124
Section 20369:  Thursday, 6:00-7:00 p.m., Monroe 124
Section 20370:  Thursday, 7:00-8:00 p.m., Monroe 116
Office Hours:  Wednesday, 2:00-4:00 p.m., Monroe B10

Course Description

This course has three primary goals. First we will study the abstract concept of money in theory, in history, and in recent financial data. For instance, we will address why fiat currency (an intrinsically worthless piece of paper) is valued and serves a key purpose in the functioning of markets. Next we will turn to the role of banks in the economy. We will cover the historical purpose of banking (taking deposits and making loans) and then turn to the vastly more complex banking landscape today. We will cover the shadow banking industry and its role in the 2007 financial crisis and recession. Finally,
we will combine the first two sections and study the role of the Federal Reserve in managing monetary policy and overseeing the banking system. We will cover the traditional monetary policy tools the Fed has historically used, but pay special attention to the highly publicized and unconventional policy tools employed during the financial crisis.

**Prerequisites**

ECON 2020: Principles of Macroeconomics is the official prerequisite. Some familiarity with ECON 2010: Principles of Microeconomics will be useful in certain chapters.

**Reading Material**

The following are required:

2. Online readings accessible through MyEconLab.
3. Lecture slides accessible through MyEconLab.

You have three options when purchasing the textbook, all of which are available in the UVa bookstore and include the MyEconLab subscription (required, see below).

- MyEconLab subscription with Etext only (ISBN 978-0-13-386251-5, $128.00)
- Loose leaf print book and MyEconLab subscription with Etext (ISBN 978-0-13-404739-3, $188.00)
- Hard-cover book and MyEconLab subscription with Etext (ISBN 978-0-12-404734-8, $276.93)

Note that all options above come with the electronic version of the book which you can access through MyEconLab. If you are comfortable only using an e-book, I would suggest choosing the first option. However, if you would rather have the physical book in front of you then the second two options are available.

In addition to the textbook you will find a reading list at the end of this syllabus. I will provide all readings to you through MyEconLab. You will also find additional, optional reading material there as well. I will also post the lecture slides on MyEconLab. Generally, slides will be posted 1 or 2 days before lecture. I will not distribute handouts so please print the slides if you want to annotate them during class.
MyEconLab

MyEconLab is a collection of online homework, tutorials, practice exams and other class materials. **You are required to purchase a subscription to MyEconLab.** All homework assignments will be accessed and graded using MyEconLab. Additionally, this is where you will access all the assigned readings.

How to set up MyEconLab

1. Visit MyEconLab online.
   http://www.pearsonmylabandmastering.com/northamerica/myeconlab/
2. Under “Register Now”, click Student .
3. You will need an email address, the Course ID (bethune33935), and an access code. The access code can be purchased through the bookstore or online when prompted.
4. Follow instructions to finish registering for ECON 3030 through MyEconLab.

Note: you may wish to get temporary access to MyEconLab without payment for 14 days. This option is advised for students that are unsure if they will drop the class.

Grading and other Course Policies

- Homework assignments - 20%
- Midterm 1 - 20%
- Midterm 2 - 20%
- Final Exam - 40%

**General:** You have the option of dropping your lowest midterm exam grade and placing that 20% weight on the final exam. This makes it possible to do poorly on the first or second midterm (or even miss one) and still recover in the course. However, the final exam is cumulative and more difficult than either of the two midterm exams, so I suggest taking both midterms as insurance against a risky final. Please note that the final course letter grade will be determined according to a scale determined after the final exam. The midterm exams will not have letter grades assigned to them.
**Exams:**  All exams are closed-book and taken in class during lecture. The exams will be a collection of multiple choice and short answer questions. **There will be no make-up exams.** If you miss one of the midterms, more weight will be given to the final as described above. If you have a known conflict with the time of the final exam, please let me know by December 2nd.

**Homework:**  All homework is assigned by me and completed by you through MyEconLab. I will drop the 4 lowest homework grades. The homework is meant to provide you practice problems for the exam.

**Emails:**  I am happy to answer your emails. However, I teach many undergraduate and graduate students so in turn I get many emails. **Please remember to put “ECON 3030 - Your name - Subject” as the subject line in the email** and I will do my best to answer it in 24 hours.

**Re-grade Policy:**  All regrade requests must be submitted to the TA within one week of receiving the grade. The request must be typed and include an explanation for each question that you desire regraded. Please note that if requesting a regrade, your grade may eventually go up or down.

**Add/drop, CR/NC, & audit dates:**  September 8th is the last day to add a class, elect the audit option, or change grading basis to CR/NC. **September 9th is the last day to drop the course.** October 20th is the last day to withdraw from the class. November 17th is the last day to withdraw from the University and return for Spring 2016. Finally, December 2nd is the last day to request a change in the final exam schedule.

**Discussion Sections:**  As a rule, you should attend the discussion section in which you are enrolled. If for some reason you are not able to attend your section in a certain week, please request to attend a different section to the TA.

**Disabilities:**  Students with special needs requiring accommodations during exams should present the appropriate paperwork from the Learning Needs and Evaluation Center (LNEC). It is the student’s responsibility to present this paperwork in a timely fashion and follow up with the instructor about the accommodation being offered.
**Honor Code:**  Every student in this course is trusted to fully comply with the University honor code. On exams, it is expected that you will neither receive or give aid to another student, access any material, use any electronic device other than a non-programmable calculator. All students in violation of the honor code during an exam will receive an immediate grade of zero for that exam and the violation will be forwarded to the Honor Committee.
## Tentative Timeline

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
</tr>
</thead>
</table>
| Week 1 (Aug 25/27) | Course Introduction and Overview  
Start **Topic 1: Money & Credit: History, Data, and Theory**  
Week 2 (Sep 1/3) | Continue Topic 1  
Week 3 (Sep 8/10) | Finish Topic 1  
Start **Topic 2: Interest Rates, Discounting, and Risk**  
Week 4 (Sep 15/17) | Continue Topic 2  
Week 5 (Sep 22/24) | Finish Topic 2  
Start **Topic 3: Direct and Indirect Finance**  
Week 6 (Sep 29/Oct 1) | **Midterm Exam 1 - September 29** (cover topics 1 and 2)  
Finish Topic 3  
Week 7 (Oct 8) | Start **Topic 4: Traditional Banking**  
Week 8 (Oct 13/15) | Finish Topic 4  
Start **Topic 5: Shadow Banking and the Recent Financial Crisis**  
Week 9 (Oct 20/22) | Finish Topic 5  
Week 10 (Oct 27/29) | **Midterm Exam 2 - October 27** (cover topics 3-5)  
Class on October 29th will be a review session.  
Week 12 (Nov 10/12) | Finish Topic 6  
Start **Topic 7: Objectives and Tools of Monetary Policy**  
Week 13 (Nov 17/19) | Continue Topic 7  
Week 14 (Nov 24) | Finish Topic 7  
Start **Topic 8: Channels of Monetary Transmission**  
Week 15 (Dec 1/3) | Finish Topic 8  
Week 16 (Dec 8) | Class Review  

**Final Exam Date: Thursday, December 10th, 2015 from 2:00-5:00 p.m.**
Reading List (Subject to Change! I will announce...)

**Topic 1: Money & Credit: In History, Data, and Theory**

**Required:**
1. Mishkin Chapters 3 and 19
2. Champ, Freeman, & Haslag, Chapter 1
3. Andolfatto (MacroMania blog), “Evil is the root of all money”

**Optional:**
- Radford, “Money in a Prisoner-of-War Camp”
- Kocherlakota, “The Technological Role of Fiat Money”
- Andolfatto, “Is Gold Money?”
- Ivanhoff, “Warren Buffet on Gold”
- Nakamoto, “Bitcoin: a peer-to-peer electronic cash system”
- Garratt & Hayes, “Bitcoin: How Likely is a 51% Attack?”
- Smith, “The Relationship Between Money and Prices: Some Historical Evidence Reconsidered”
- Walalce, “Fiat Money” (for the technically inclined)

**Topic 2: Interest Rates, Discounting, and Risk**

**Required:**
1. Mishkin Chapters 4-7

**Optional:**
- Keister, “Why is there a ‘zero lower bound’ on interest rates?”
- Cochrane, “The decline in long-term interest rates”
- Mankiw, “What does an inverted yield curve mean?”

**Topic 3: Direct and Indirect Finance**

**Required:**
1. Mishkin Chapters 2 and 8

**Optional:**
• Lummer and McConnell, “Further Evidence on the Bank Lending Process”
• King and Levine, “Finance and Growth: Schumpeter Might Be Right”

**Topic 4: Traditional Banking**

**Required:**
1. Mishkin Chapters 9 and 10
2. Carney, “What are Banks Really For?” (pg 1-2)
3. Kashyap, Rajan, and Stein, “Banks as Liquidity Providers” (Intro only)
4. Gatev and Strahan, “Banks Advantage in Hedging Liquidity Risk” (Intro only)

**Optional:**
• Kroszner, “Rethinking Bank Regulation: A Review of the Historical Evidence”
• Ely, “The Savings and Loan Crisis”
• Ashcraft, “Are Banks Really Special? New Evidence from the FDIC-Induced Failure of Healthy Banks” (Intro only)
• Kroszner, “The Motivations Behind Banking Reform”

**Topic 5: Shadow Banking and the Recent Financial Crisis**

**Required:**
1. Mishkin Chapters 11 and 12
2. Carney, “What are Banks Really For?” (pg 3-7)
4. Rosen, “The Role of Securitization in Mortgage Lending”

**Optional:**
• Minneapolis Fed Interview with Gary Gorton
• Pozsar, Adrian, Ashcrafty, and Boesky, “Shadow Banking”
• Poposka, Vaughan, Yeager, “The Two Faces of Banking”
• Economist, “Securitization: When it goes wrong…”
• Economist, “Northern Rock: Lessons of the fall”
• Cipriani, Holscher, Martin, and McCabe, “Money Market Funds and Systemic Risk”
• Kroszner, “Liquidity-Risk Management in the Business of Banking”
• Acharya and Richardson, “Causes of the Financial Crisis”
• Diamond and Rajan, “The Credit Crisis: Conjectures about Causes and Remedies”

**Topic 6: The Federal Reserve System and the Money Supply**

**Required:**
1. Mishkin Chapters 13 and 14
2. Gorton and Huang, “Banking Panics and the Origin of Central Banking”

**Optional:**
• McCandles and Weber, “Some Monetary Facts”
• Andolfatto (MacroMania), “The Free-Banking vs. Central-Banking Debate”
• Rowe (Worthwhile Canadian Initiative Blog), “Currency, Interest, and Redemabiity”
• Andolfatto (MacroMania), “What makes a central bank special?”

**Topic 7: Objectives and Tools of Monetary Policy**

**Required:**
1. Mishkin Chapters 15 and 16

**Optional:**
• Kohn, “Monetary Policy and Asset Prices Revisited”
• Carlson and Parrott, “Understanding the Recent Behavior of M2”
• Alessi and Detken, “Real Time Early Warning Indicators for Costly Asset Price Boom/Bust Cycles”
• Kroszner, “Communications Strategy, Expectations Management, and Central Bank Credibility”
Topic 8: Channels of Monetary Transmission

Required:
1. Mishkin Chapters 20, 21, 22, 23, and 25
2. Bernanke, “Monetary Policy Transmission: Through Money or Credit?”

Optional:
• To come
Pearson’s MyLab & Mastering
Student Registration Instructions

To register for ECON 3030- Fall 2015:

2. Under Register, select Student.
3. Confirm you have the information needed, then select OK! Register now.
4. Enter your instructor’s course ID: bethune33935, and Continue.
5. Enter your existing Pearson account username and password to Sign In.
   You have an account if you have used a Pearson product, for example: MyMathLab, MyITLab, MyPsychLab, MySpanishLab or Mastering, such as MasteringBiology.
   ➔ If you don’t have an account, select Create and complete the required fields.
6. Select an access option.
   ➔ Use the access code that came with your textbook or that you purchased separately from the bookstore.
   ➔ Buy access using a credit card or PayPal account.
   ➔ If available, get 14 days temporary access. (The link is near the bottom of the screen.)
7. From the confirmation page, select Go To My Courses.
8. On the My Courses page, select the course tile ECON 3030- Fall 2015 to start your work.

To sign in later:

2. Select Sign In.
3. Enter your Pearson account username and password, and Sign In.
4. Select the course tile ECON 3030- Fall 2015 to start your work.

To upgrade temporary access to full access:

2. Select Sign In.
3. Enter your Pearson account username and password, and Sign In.
4. Select Upgrade access from the course tile ECON 3030- Fall 2015.
5. Enter an access code or purchase access with a credit card or PayPal account.

For a registration overview, go to www.pearsonmylabandmastering.com/students/get-registered. Scroll down to Need a little help? and select a video.