

Economics 3030: Money and Banking

Syllabus - Spring 2018

Contact Information

Instructor: Professor Zachary Bethune

Office: Monroe Hall 339

Email: zab2t@virginia.edu

Email is the best way to get in touch with me. 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.

Office Hours: Thursday, 5:00-6:30 pm

Course Times and Location

Classroom: Monroe Hall 130

Time: T/Th, 2:00 - 3:15 p.m. (300 section), 3:30-4:45 p.m. (200 section)

Teaching Assistants and Discussions

300 Section

Instructor: Gizem Kutlu (gk3bf@virginia.edu)

Section 301: Wednesday, 4:00-4:50 p.m., Clark G004

Section 302: Wednesday, 5:00-5:50 p.m., Maury 113

Section 303: Wednesday, 6:00-6:50 p.m., Wilson 214

Office Hours: Thursday, 5:00-6:30 p.m., Monroe Basement

200 Section

Instructor: Yuchi Yao (yy5pt@virginia.edu)

Section 201: Tuesday, 5:00-5:50 p.m., Monroe 118

Section 202: Tuesday, 6:00-6:50 p.m., Monroe 111

Section 203: Tuesday, 7:00-7:50 p.m., Wilson 214

Office Hours: Monday, 8:00-10:00 a.m., Monroe Basement

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**:

1. Frederic Mishkin, The Economics of Money, Banking and Financial Markets, 11th edition.
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)

- Loose leaf print book and MyEconLab subscription with Etext (ISBN 978-0-13-404739-3)
- Hard-cover book and MyEconLab subscription with Etext (ISBN 978-0-12-404734-8)

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 Collab. You will also find additional, optional reading material there as well.

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.

How to set up MyEconLab

1. Visit [MyEconLab](http://www.pearsonmylabandmastering.com/northamerica/myeconlab/) online.
<http://www.pearsonmylabandmastering.com/northamerica/myeconlab/>
2. Under "Register Now", click Student .
3. You will need an email address, the Course ID (**bethune66665**), 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 (MyEconLab) - 24%
- Exam 1 - 25%

- Exam 2 - 25%
- Exam 3 - 25%
- Fill out course evaluation - 1%

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 have prior approval (for example participation in a University sponsored event) or a valid documentation (for example from a doctor in case of illness) for missing an exam, then in this case only, the exam will be scored according to an average of the other two exams.

Homework: All homework is assigned by me and completed by you through MyE-conLab. I will drop the 3 lowest homework grades. The homework is meant to provide you practice problems for the exam.

Re-grade Policy: You are allowed to ask for a re-grade on the exams. 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: January 31st is the last day to add a class. **February 1st is the last day to drop the course.** March 14th is the last day to withdraw from the class.

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 Schedule

Week 1 (Jan 18)	Course Introduction and Overview
Week 2 (Jan 23/25)	Start Topic 1: Money & Credit: History, Data, and Theory
Week 3 (Jan 30/Feb 1)	Continue Topic 1
Week 4 (Feb 6/8)	Finish Topic 1 Start Topic 2: Interest Rates, Discounting, and Risk
Week 5 (Feb 13/15)	Continue Topic 2
Week 6 (Feb 20/22)	Finish Topic 2 Start Topic 3: Direct and Indirect Finance
Week 7 (Feb 27/Mar 1)	Exam 1 - February 27 (covers topics 1 and 2) Class on March 1st will be an optional exam review session.
Week 8 (Mar 13/15)	Finish Topic 3 Start Topic 4: Traditional Banking
Week 9 (Mar 20/22)	Finish Topic 4 Start Topic 5: Shadow Banking and the Recent Financial Crisis
Week 10 (Mar 27/29)	Finish Topic 5
Week 11 (Apr 3/5)	Midterm Exam 2 - April 3 (covers topics 3-5) Start Topic 6: The Federal Reserve System and the Money Supply
Week 12 (Apr 10/12)	Finish Topic 6 Start Topic 7: Objectives and Tools of Monetary Policy
Week 13 (Apr 17/19)	Finish Topic 7 Start Topic 8: Channels of Monetary Transmission (if time)
Week 14 (Apr 24/26)	Finish Topic 8 (if time)
Week 15 (May 1)	Exam 3 (covers topics 6-8)

Reading List (Subject to Change! I will announce if it does)

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)
- 5.

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)
3. Noeth and Sengupta, "Is Shadow Banking Really Banking?"
4. Rosen, "The Role of Securitization in Mortgage Lending"

Optional:

- Minneapolis Fed Interview with Gary Gorton
- Pozsar, Adrian, Ashcraft, 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 Redeemability"
- Andolfatto (MacroMania), "What makes a central bank special?"

Topic 7: Objectives and Tools of Monetary Policy

Required:

1. Mishkin Chapters 15 and 16
2. Bernanke, "Deflation: Making Sure 'It' Doesn't Happen Here"
3. Santomero, "What Monetary Policy Can and Cannot Do"

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, and 22
2. Bernanke, "Monetary Policy Transmission: Through Money or Credit?"

Student Registration Instructions

To register for **ECON 3030 - Money & Banking** :

1. Go to www.pearson.com/mylab .
2. Under Register, select **Student** .
3. Confirm you have the information needed, then select **OK! Register now** .
4. Enter your instructor's course ID: **bethune66665** , and **Continue** .
5. Enter your existing Pearson account **username** and **password** to **Sign In** .
You have an account if you have ever used a MyLab or Mastering product.
 - » If you don't have an account, select **Create** and complete the required fields.
6. Select an access option.
 - » Enter the access code that came with your textbook or that you purchased separately from the bookstore.
 - » If available for your course,
 - Buy access using a credit card or PayPal.
 - Get temporary access.
7. From the You're Done! page, select **Go To My Courses** .
8. On the My Courses page, select the course name **ECON 3030 - Money & Banking** to start your work.

To sign in later:

1. Go to www.pearson.com/mylab .
2. Select **Sign In** .
3. Enter your Pearson account **username** and **password**, and **Sign In** .
4. Select the course name **ECON 3030 - Money & Banking** to start your work.

To upgrade temporary access to full access:

1. Go to www.pearson.com/mylab .
2. Select **Sign In** .
3. Enter your Pearson account **username** and **password**, and **Sign In** .
4. Select **Upgrade access** for **ECON 3030 - Money & Banking** .
5. Enter an access code or buy access with a credit card or PayPal.