

# ECON 3200-001: Money & Banking

## Spring 2017

Instructor: Dustin Hamalainen  
Office: Building 72  
Email: [dustin.hamalainen@economics.utah.edu](mailto:dustin.hamalainen@economics.utah.edu)  
Office hours: M/W 1:30 – 2:00 and by appointment (it is best to reach me by email)

Lecture: M/W 11:50 am – 1:10 pm (BLDG 73, Rm. 106)  
Credit hours: 3

**Course Description:** “Examines monetary and financial instruments, institutions, and markets from the perspectives of theory, practice, and policy. The major sections of the course are the history and evolution of the monetary and financial system, the modern financial system and banking money and finance in macroeconomic theory, and the conduct of monetary policy.”

**Course Objectives:** This course develops a conceptual framework for understanding the “big picture” with respect to the modern financial system through an analysis of payment systems, money markets, foreign exchange and capital markets. At the end of the course, the student will be able to read and interpret financial periodicals and engage in discourse related to developments of the modern monetary and financial system.

**Prerequisites:** College Algebra, ECON 2010 and 2020 or instructor’s consent. The material covered in ECON 2020 (Principles of Macroeconomics) will be used extensively in this course.

### Texts:

1. *Stigum’s Money Market*, by Marcia Stigum and Anthony Crescenzi, 4th edition (ISBN: 978-0071448451)
2. Other readings (posted on Canvas)

A copy of *Stigum’s Money Market* will be on reserve at Marriott library.

It is strongly recommended that students have access to the Financial Times, Wall Street Journal, or a comparable publication as lectures will refer to current events whenever possible. The ASUU Collegiate Readership Program provides access to a number of newspapers for free with your U-card; locations can be found at: <http://asuu.utah.edu/collegiate-readership-program>.

**Assignments, Exams and Grading:** Weekly(ish) quizzes will be given (online via Canvas), which cover material from lectures and assigned readings/videos. Quiz questions will be primarily multiple choice questions (with the occasional short-answer question) and will be graded based on correctness. You will have two attempts to complete each quiz (Canvas will record the highest score); *the lowest quiz score will be dropped at the end of the semester*. Quizzes will be due by 11:59pm on the day before the first class of each week. Depending on the level of participation that occurs during class, unannounced reading quizzes may be given throughout the semester during scheduled class time.

In addition to the quizzes described above, problem sets will be assigned that provide an opportunity to explore the material in greater detail (and to prepare for the exams). Problem sets *must* be typed and turned in by the start of class (or submitted via Canvas) on the scheduled due date. Late problem sets will not be accepted; however, you will be allowed an automatic 24-hour extension with no penalty on *one* of your problem sets (you do not need to email me about the extension, simply submit it via Canvas within 24 hours of the original due date).

There will be one midterm (Wednesday, March 1st during our scheduled class time) and a cumulative final exam (scheduled by the university for Wednesday, May 3rd from 10:30am – 12:30pm) for this course, both of

which will be written, in-class/closed-book exams. The problem sets will serve as your primary study guide for the exams; however, any material that we cover in class is fair game.

Final grades will be calculated based on the following distribution:

Cumulative Final Exam (Wednesday, May 3)	30%
Midterm Exam (Wednesday, March 1) .....	25%
Problem Sets .....	20%
Quizzes .....	15%
Participation .....	10%

Unless stated otherwise, numerical scores correspond to letter grades as follows:

$\geq 93.00$	A	73.00 - 76.99	C
90.00 - 92.99	A-	70.00 - 72.99	C-
87.00 - 89.99	B+	67.00 - 69.99	D+
83.00 - 86.99	B	63.00 - 66.99	D
80.00 - 82.99	B-	60.00 - 62.99	D-
77.00 - 79.99	C+	$\leq 59.99$	E

According to university policy (found here <http://regulations.utah.edu/academics/6-100.php>), letter grades should reflect the following levels of achievement:

A, A-	“excellent performance, superior achievement”;
B+, B, B-	“good performance, substantial achievement”;
C+, C, C-	“standard performance and achievement”;
D+, D, D-	“substandard performance, marginal achievement”;
E	“unsatisfactory performance and achievement.”

### Important Dates:

Monday, Jan. 16 .....	MLK day (no class)
Friday, Jan. 20 .....	Last day to add/drop (delete)
Monday, Feb. 20.....	Presidents’ Day (no class)
<b>Wednesday, March 1</b>	<b>Midterm Exam</b>
Friday, March 3.....	Last day to withdraw from classes
March 12 – 19 .....	Spring Break (no class)
Monday, April 24 .....	Last Class (Review)
<b>Wednesday, May 3rd</b>	<b>Final Exam (<u>10:30am - 12:30pm</u> in BLDG 73, Rm. 106)</b>

## General Policies:

- The use of computers and tablets for note taking is discouraged, but not restricted; however, if you choose to take notes electronically, I ask that you sit in the first row. Additionally, cellphone use during lecture, for any reason, is prohibited and will result in the loss of participation points.
- Group study is strongly encouraged; however, quizzes and problem sets must be completed individually. Evidence of collusion or the use of work that is not your own, will result in—at a minimum—a failing grade for assignment and referral to the department chair as required by university policy.
- Late work will not be accepted (exceptions will be made in the case of *documented* medical emergencies).
- The answers to quizzes will be made available once the due-date passes. As such, extensions for the quizzes will not be given, no exceptions.

## University Policies:

(1) “The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability Services, 162 Olpin Union Building, 581-5020 (V/TDD). CDS will work with you and the instructor to make arrangements for accommodations. All information in this course can be made available in alternative format with prior notification to the Center for Disability Services.”

(2) Students are expected to abide by the Student Code (see <http://regulations.utah.edu/academics/6-400.php>) and maintain behavior in accordance with the standards of academic conduct. According to the Student Code, “a student who engages in academic misconduct [including, but not limited to, cheating, plagiarism, collusion, fraud and theft] ... may be subject to academic sanctions including but not limited to a grade reduction, failing grade, probation, suspension or dismissal from the program or the University, or revocation of the student’s degree or certificate” (Section V).

## Tentative Course Outline:

	<b>Topics Covered</b>	<b>Readings</b>
Week 1	The hierarchy of money and credit; Financial Accounting: the balance sheet; Capital markets and money markets overview	<b>Mehrling (2013)</b> ; Stigum and Crescenzi (2007, ch. 3, pp. 37 – 47); Wright (2012, ch. 9)
Week 2	Bond valuation and yield curves; balance sheets of banks; the structure of the Federal Reserve System; the balance sheet of the Fed	<b>Fabozzi and Mann (2010)</b> ; Stigum and Crescenzi (2007, ch. 4); Federal Reserve Bank of Richmond (2012)
Week 3	Money supply definitions; money creation (money multiplier and fractional reserve lending)	<b>Stigum and Crescenzi (2007, ch. 2)</b>
Week 4	The monetary transmission mechanism	Mishkin (2012) ; Bernanke and Gertler (1995)
Week 5	Origins of the present system: civil war finance; the National Banking System; the early years of the Fed	<b>Mehrling (2012f)</b> ; Young (1929)*
Week 6	Payment systems; the Fed funds market and final settlement; payment vs. funding; endogeneity of money and Fed policy; Repo and Reverse markets	<b>Mehrling (2012a)</b> ; <b>Mehrling (2012c)</b> ; <b>Mehrling (2012h)</b> ; Fleming and Wigglesworth (2015)

Week 7	The eurodollar market and Forward Rate Agreements	<b>Mehrling (2012b)</b> ; Stigum and Crescenzi (2007, ch. 7, 209–225 & 275–277); Stigum and Crescenzi (2007, ch. 18, 823–826)
Week 8	<b>Review and Midterm Exam</b>	
Week 9	An introduction to foreign exchange; theories of exchange rate determination	<b>Mehrling (2012d)</b> , Krugman et al. (2011)
Week 10	<b>Spring Break (no class)</b>	
Week 11	The “Trilemma” and the political economy of exchange rate regimes	<b>Economist (2016)</b> , <b>Mehrling (2012g)</b>
Week 12	Swaps, Derivatives and “Shadow Banking”	<b>Mehrling (2012e)</b> ; Stigum and Crescenzi (2007, ch. 19, 869 – 882)
Week 13	Financial (in)stability	<b>Pollin (1997)</b> ; Minsky (1992)
Week 14	Financial (de)regulation and policy	Sherman (2009)
Week 15	TBD	
Week 16	Final Exam Review	

Citations in **bold** denote readings of particular importance, while asterisks (\*) denote optional readings.

*Note: The syllabus is not a binding legal contract. It may be modified by the instructor when the student is given reasonable notice of the modification.*

## References

Bernanke, B. S. and M. Gertler (1995). Inside the black box: The credit channel of monetary policy transmission. *Journal of Economic Perspectives* 9(4), 27–48.

Economist, T. (2016). Two out of three aint bad. *The Economist*. <http://www.economist.com/news/economics-brief/21705672-fixed-exchange-rate-monetary-autonomy-and-free-flow-capital-are-incompatibl>

Fabozzi, F. J. and S. V. Mann (2010). *Introduction to fixed income analytics: relative value analysis, risk measures, and valuation* (2 ed.). Wiley.

Federal Reserve Bank of Richmond (2012). Federal reserve today. [https://www.richmondfed.org/~media/richmondfedorg/publications/education/federal\\_reserve\\_today/frtoday.pdf](https://www.richmondfed.org/~/media/richmondfedorg/publications/education/federal_reserve_today/frtoday.pdf).

Fleming, S. and R. Wigglesworth (2015). Federal reserve sharpens tools for lift-off. *Financial Times*.

Krugman, P., M. Obstfeld, and M. Melitz (2011). International economics, 9e. ch. 14, Exchange Rates and the Foreign Exchange Market: An Asset Approach.

Mehrling, P. (2012a). The central bank as a clearinghouse. *Lecture Notes, Columbia University: Economics of Money and Banking*.

Mehrling, P. (2012b). Eurodollars, parallel settlement. *Lecture Notes, Columbia University: Economics of Money and Banking*.

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- Mishkin, F. S. (2012). Transmission mechanisms of monetary policy.
- Pollin, R. (1997). The relevance of hyman minsky. *Political Economy Research Institute Working Paper Series* (183).
- Sherman, M. (2009). A short history of financial deregulation in the united states. *Center for Economic and Policy Research*. <http://www.cepr.net/documents/publications/dereg-timeline-2009-07.pdf>.
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- Wright, R. (2012). Money and banking. <http://www.saylor.org/site/textbooks/Money%20and%20Banking.pdf>.
- Young, A. (1929). *Commerce: The Marketplace of the World*, Chapter 34:35.