

University of Utah  
Department of Economics  
Fall 2014 Semester  
ECON 3200: Money and Banking  
Instructor – Mahfuz Raihan  
Meetings: 11:50 AM-1:10 PM, M,W in WEB L 105

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Office Hours – by appointment  
Phone – 801-580-0769

### **Prerequisites**

Introductory Micro and Macro Economics (ECON 2010 and 2020 or equivalents) & college Algebra

### **Course Overview**

This course will examine the monetary and financial instruments, institutions and markets from the perspectives of theory, practice and policy, and will focus on 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**

In this course, students will be prepared to:

1. Understand the role of financial system and importance of money in a capitalist economy
2. Apply different pricing techniques of debt securities in the fixed income debt markets
3. Evaluate the efficiency of banking system, Federal Reserve, and their prowess to conduct monetary policy

### **Required Texts and Reading Materials**

The required text book for this course is “Money, Banking and the Financial System” by R. Glenn Hubbard and Anthony P. O’Brien, ISBN-10- 0132994917, 2<sup>nd</sup> edition, Publisher: Prentice Hall. Students will be able purchase a copy of this book from the University book store or from the Amazon, or from other book sellers. Two other optional text books are (1) Money, Banking and Financial Market by Laurence Ball, 1<sup>st</sup> edition, and (2) The Economics of Money, Banking and the Financial Market by Federic S. Mishkin( 10<sup>th</sup> edition).

Other reading materials will include articles published in peer reviewed journals and national-international newspapers, case studies collected from various sources, etc. Instructor will post links or pdf versions of these materials on canvas in time. Students will be expected to read *The Economist* each week and *The Financial Times* most days during the semester.

## **Teaching and Learning Methods**

The class sessions will be conducted with lectures, open class discussions and small group discussions, in class quantitative exercises and in class article/case study presentation by students. Instructor's lectures will not supplement the text book. Thus, students will be required to read the assigned chapters from the text book before attending the class meeting in which they will be discussed. For open class discussion and group discussion, topics will be selected from the text book, the supplementary reading materials (case studies and articles), the Economists and the Financial Times newspapers.

This course is a quantitative intensive and requires a mastery of problem solving from students. Thus, students will solve various exercises in class, related to interest rate, asset pricing and monetary aggregates, etc. Instructor will make sure that every student participates in class exercises and understands the solutions properly.

## **Policies**

### *Attendance & Punctuality:*

Class attendance will be recorded every class and attendance will have 10% weight to final grade. Students will be expected to be entering the class room on time.

### *Food & Drink:*

Food & Drink are allowed in class. But students should be careful about class environment. They must clean immediately any food and drink related mess.

### *Cell Phones & Computers:*

**Cell phone, tablet and computer are not allowed in class. Internet browsing during class hour will be penalized by cutting 1% points for each violation but maximum 5% from class attendance.**

### *CANVAS:*

Canvas will be the main source of course information for students. All assignments will be posted on canvas and students also must submit answers for assignments on Canvas.

### *Rights and responsibilities:*

All students are expected to maintain professional behavior in the classroom setting, according to the Student Code, spelled out in the [Student Handbook](#). Students have specific rights in the classroom as detailed in Article III of the Code. The Code also specifies proscribed conduct (Article XI) that involves cheating on tests, plagiarism, and/or collusion, as well as fraud, theft, etc. Students should read the Code carefully and know they are responsible for the content. According to Faculty Rules and Regulations, it is faculty responsibility to enforce responsible classroom behaviors, beginning with verbal warnings and progressing to

dismissal from class and a failing grade. Students have the right to appeal such action to the Student Behavior Committee

### **Americans with Disabilities Act (ADA) Statement**

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.

### **Wellness Statement**

Personal concerns such as stress, anxiety, relationship difficulties, depression, cross-cultural differences, etc., can interfere with a student's ability to succeed and thrive at the University of Utah. For helpful resources contact the Center for Student Wellness - [www.wellness.utah.edu](http://www.wellness.utah.edu); 801-581-7776.

### **Veteran Center**

If you are a **student veteran**, I want you to know that the U of Utah has a Veterans Support Center on campus. They are located in Room 161 in the Olpin Union Building. Hours: M-F 8-5pm. Please visit their website for more information about what support they offer, a list of ongoing events and links to outside resources: <http://veteranscenter.utah.edu/>. Please also let me know if you need any additional support in this class for any reason.

### **LGBT Resource Center**

If you are a member of the **LGBTQ community**, I want you to know that my classroom is a safe zone\*. Additionally, please know that the U of Utah has an LGBT Resource Center on campus. They are located in Room 409 in the Oplin Union Building. Hours: M-F 8-5pm. You can visit their website to find more information about the support they can offer, a list of events through the center and links to additional resources: <http://lgbt.utah.edu/>. Please also let me know if there is any additional support you need in this class.

### **Learners of English as an Additional/ Second Language**

If you are an English language learner, please be aware of several resources on campus that will support you with your language development and writing. These resources include: the Department of Linguistics ESL Program (<http://linguistics.utah.edu/esl-program/>); the Writing Center (<http://writingcenter.utah.edu/>); the Writing Program (<http://writing-program.utah.edu/>); the English

Language Institute (<http://continue.utah.edu/eli/>). Please let me know if there is any additional support you would like to discuss for this class.

### **Grading Policy:**

Every examination will be preceded by **home works and quizzes**. I shall ask questions for the examinations similar to home work and quiz questions. Thus, students should be able to use homework and quiz as platform to prepare for the examinations.

**Home works** will cover a group of chapters and will ask multiple choices, quantitative problems and qualitative problems. **Quizzes** will be un-announced and will ask mostly multiple choice questions. The objectives of home works and quizzes are to ensure students' deep understanding of the subject matters, and to encourage students to remain up-to-date with class materials.

Students will have a few of articles and case-studies every week. These articles and case-studies will cover current economic issues and will show students how to make connections with the concepts they learn from the text book, class lectures and class discussions. Reading these articles and case-studies in time will prepare students for participating in class discussions and for the examinations. Students will write **a reaction report** time to time based on journals and case studies discussed in class.

*Make up Examinations for Midterms and Final will be allowed only for valid medical reasons, supported by proper documents.*

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### **Grading Policy and Distribution:**

	Date	Weight
Class attendance and participation		5%
Home works& Reaction Report		25%
Quiz		10%
Midterm Exam-1	October 20, class hour	20%
Midterm Exam-2	November 17, class hour	20%
Final Exam	December 19, 2014 10:30 am – 12:30 pm	20%
Total		100%

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## **Letter Grade Assignment:**

Letter grades will be assigned based on a grade curve. The grade curve will be calculated as follows: Instructor will find the highest total score in the class and set this as the "new" 100% ( perfect score) for the class. This means that instructor will subtract the highest score in the class from the hypothetical "perfect" score ( 100%) , then add the difference to every student's total score. For example, let's say the highest score in class is a 95%. In this case, because  $100-95 = 5$ , instructor would add 5% to all of the student grades. This makes the 95% score an adjusted 100%, and every other score 5% higher than it is. After implementing grade curve method, instructor will assign letter grade using following letter grade distribution:

$A \geq 90\%$ ,  $90\% > A- \geq 85\%$ ,  $85\% > B+ \geq 80\%$ ,  $80\% > B \geq 75\%$ ,  $75\% > B- \geq 70\%$ ,  $70\% > C+ \geq 65\%$ ,  $65\% > C \geq 60\%$ ,  $60\% > C- \geq 55\%$ ,  $55\% > D \geq 50\%$ ,  $50\% > E$

Incomplete grade will be given only for valid medical reasons, supported by proper documents. According to university regulations, you must be passing the class at the time you get an incomplete.

## **Tentative Schedule**

### **Introduction and Payment System**

(1) Introducing Financial System, Hubbard and O'Brien: Ch-1                      *August 25 & 27*

-Case Study: Microfinance: Bank for the Poor- Ball, ch-1, Page 16

### **Labor Day Holiday: Monday, September 1**

(2) Money and Payment System; Hubbard and O'Brien: Ch-2.                      *September 3 & 8*

-Case Study: Cigarette Money in POW camp by Radford

-Readings: Island of Stone Money by Milton Friedman

- **Reaction Report-1** on case studies and readings discussed in classes *between August, 25 to September, 8. Due on September, 14 by midnight*

### **-Determination and Structure of Interest Rate -**

(3) Interest Rate and Rates of Return; Hubbard and O'Brien: Ch-3                      *September 10 & 15*

-Computer Lab Session: Asset pricing techniques using EXCEL                      *September 17 & 22*

- **Homework-1** ( MCQ, TF, Quantitative) covers Ch-1, 2, and 3 of Hubbard. *Due on September, 21 by midnight*
- *Quantitative Exercise:* Asset pricing related problems with Excel. *Due on September, 28 by midnight.*

(4) Interest Rate Determination; Hubbard and O'Brien: Ch-4. *September 24 & 29*

-Case Study: Budget Deficit and Interest Rates- Ball, ch-4, Page 93

-Case Study: Did a global savings glut cause the US housing boom? Hubbard, Ch-4, Page 113

(5) The Risk & Term Structure; Hubbard and O'Brien: Ch-5. *October 1 & 6*

-Case Study: Do Credit Rating Agencies have a conflict of interest? Hubbard, Ch-5, Page 127

-Case Study: Term Structure to Forecast Economic Recession? Hubbard, Ch-5, Page 145

- **Homework-2** ( MCQ, TF, Quantitative) covers Ch-4, 5 of Hubbard, ***Due on October, 9 by midnight***
- **Reaction Report-2** on case studies discussed in classes *between September 24 & October 6. Due on October, 11 by midnight*

**Review class for first midterm exam**

*October 8*

***Fall Break, October 12-19***

**First Midterm Examination- Duration Maximum 1 hour and 20 minutes: October 20, class hours**

*Financial Markets and Institutions-*

(6) The Stock Market and its Efficiency, Hubbard and O'Brien: Ch-6. *October 22 & 27*

-Reading: What do we know about Stock Market Efficiency? By Ray Ball

-Case Study: Investment in Stock Market by Picking Stock Randomly, Hubbard, Ch-6, Page 175

(7) Economic Analysis of Financial Structure; Hubbard and O'Brien: Ch-9. *October 29 & Nov 3*

-Case Study: Has Securitization Increased Adverse Selection Problems? Hubbard, Ch-9, Page 263

-Case Study: Moral Hazard in Stock Market & Tyco CEO Dennis Kozlosky, Ball, Ch-7, Page 196

-Case Study: Bernard Madoff and His Ponzi scheme, Ball, Ch-7, Page 198

- **Reaction Report-3** on case studies and readings discussed in classes *between October 22 to Nov 3. Due on November 6 by midnight*
- **Homework-3** ( MCQ, TF, Quantitative) covers Ch-6, 9 of Hubbard . ***Due on November 9 by midnight***

(8) The Economics of Banking; Hubbard and O'Brien: Ch-10. *November 5 & 10*

- Case Study: The Rise and Fall of Checking Account. Hubbard, Ch-10, Page 283

-Case Study: Trend in US Banking Industry: Dual Banking System, Bank Run & FDIC, Emergence of Nationwide Banking. Hubbard, Ch-10, Page 299

- **Homework-4** ( MCQ, TF, Quantitative) covers Ch-10 of Hubbard. ***Due on November 15 by midnight***

**Review Class for Second Midterm Exam**

*November 12*

**Second Midterm Examination- Duration Maximum 1 hour and 20 minutes: November 17, class hours**

*Central Banking and Conduct of Monetary Policy-*

(9) The Federal Reserve & Money Supply; Hubbard and O'Brien: Ch-13, 14. *Nov19 & 24*

-Readings: A Brief History of Central Banks by Michael Bordo

-Readings: Come with Me to the FOMC, Laurence Meyer

-Case Study: Explaining the explosion in the Monetary Base during 2007-2008 Financial crisis

(10) Monetary Policy and Targeting; Hubbard and O'Brien: Ch-15. *Nov 26 & Dec 1*

-**Readings:** John Taylor rules by: Donald Kohn

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- **Reaction Report-4** on case studies and readings discussed in classes *between Nov 19 and Dec 1. Due on December, 4.*
- **Homework-5 ( MCQ, TF, Quantitative)** covers Ch-13,14,15 of Hubbard. **Due on December, 7.**

(11) Money and Output: AS-AD Model; Hubbard and O'Brien: Ch-17 *December, 3 & 8*

-**Case Study:** The US Economy, 1960-2010, Ball Ch-12, Page 379

**Review Class for Second Final Exam**

*December 10*

**Final Examination- Duration Maximum 2 hours. December 19, 10.30 am-12.30 pm**

Finally, the Instructor reserves the right to make changes in this syllabus as the need arises during this semester.

