



Syllabus for Econ 3200-001

Fall Semester 2019

Monday and Wednesday 1:25 PM – 2:45 PM; GC 2660

Instructor: Taeyoung Lee

Email: taeyoung.lee@economics.utah.edu

Office Hours: 3:00 – 4:00 PM on Monday and Wednesday

Office Location: GC 4130

Required Readings

Steven Cecchetti and Kermit L. Schoenholtz, *Money, Banking, and Financial Markets*, 5e McGraw-Hill.

The textbook is required and currently in its fifth edition. You may purchase the fourth edition if you can find one on Amazon.

See “Course Schedule” below for other required reading materials. They will be available later on Canvas.

Course Description from the University Catalogue

This course 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.

Prerequisite: College Algebra, ECON 2010 and ECON 2020 or instructor’s consent.

Requirement Designation: Quantitative Intensive BS

Credit hours: 3

Course Objective and Outcomes

The main goal in the first half of the semester is to learn about interest rates. Interest rates are the price of money and money-like financial assets such as bonds. We will discover that risks play an important role in determining the price of financial assets.

Once we are familiar with interest rates as the price of money and money-like financial assets, our next goal is to understand how financial intermediaries such as banks provision money and money-like assets for the economy in the process of intermediating credit between borrowers and lenders. We will learn that credit intermediation crucially depends on various types of risks that are inherent in their balance sheets.

Our final goal is to understand how the central bank maintains the monetary and financial stability of the economy. We will learn that, in theory, it is the central bank that has the ultimate control of the price of money and money-like assets in the economy because its monetary policy can affect the price of the central bank reserve money. The central bank reserve money is the money that banks are required to use in order to settle debt relations among themselves, which arise in the process of intermediating credit.

In sum, the goal is to understand the creation, valuation, intermediation, and regulation of various financial assets such as money and bonds. We will conclude the course with an overview of what money and banking is all about from the perspective of what money really is.

By the end of the semester, you should be able to answer the following questions.

- What is money? How are different forms of money created in the economy? How are they related to each other? Are they equal in quality? What constraints banks from creating money?
- How do we measure risk? How are interest rates affected by different types of risk? What are the macroeconomic implications of interest rates?
- What functions do financial intermediaries perform? What are the risks that are inherent in the provision of credit by financial intermediaries? How do they manage those risks?
- What is the goal of the central bank? How does it achieve its goal? How did the monetary policy framework work prior to the 2007-09 financial crisis? How has it been changed since the crisis?
- What is money and banking all about from the perspective of what money really is? What is shadow banking? How is it different from the traditional banking?

University Policies

1. ***The Americans with Disabilities Act.*** 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 this class, reasonable prior notice needs to be given to the Center for Disability Services, 162 Olpin Union Building, (801) 581-5020. CDS will work with you and the instructor to make arrangements for accommodations. All written information in this course can be made available in an alternative format with prior notification to the Center for Disability Services.
2. ***University Safety Statement.*** The University of Utah values the safety of all campus community members. To report suspicious activity or to request a courtesy escort, call campus police at 801-585-COPS (801-585-2677). You will receive important emergency alerts and safety messages regarding campus safety via text message. For more information regarding safety and to view available training resources, including helpful videos, visit safeu.utah.edu.

3. **Addressing Sexual Misconduct.** Title IX makes it clear that violence and harassment based on sex and gender (which includes sexual orientation and gender identity/expression) is a civil rights offense subject to the same kinds of accountability and the same kinds of support applied to offenses against other protected categories such as race, national origin, color, religion, age, status as a person with a disability, veteran's status or genetic information. If you or someone you know has been harassed or assaulted, you are encouraged to report it to the Title IX Coordinator in the Office of Equal Opportunity and Affirmative Action, 135 Park Building, 801-581-8365, or the Office of the Dean of Students, 270 Union Building, 801-581-7066. For support and confidential consultation, contact the Center for Student Wellness, 426 SSB, 801-581-7776. To report to the police, contact the Department of Public Safety, 801-585-2677(COPS).
4. **Drop/Withdrawal.** Last day to add, drop (delete), elect CR/NC, or audit classes is Friday, August 30. Last day to withdraw from classes is Friday, October 18.

Expectations and Course Policies

Teaching will mainly consist of lectures and discussions. Each week you are expected to read the corresponding chapters in the textbook and check Canvas for lecture slides, take-home quizzes, assignments, and announcements.

Cheating: Turning in work that is not your own is an act of cheating. Any act of cheating will result in a failing grade (zero points) on the exam, quiz, or assignment. Any subsequent act of cheating will result in a failing grade for the course.

Course Webpage: Canvas

Cell phone and computer: The use of cell phone and computer for the purpose of texting, email, social media, and web surfing is not permitted during the class. If you violate this rule, you will be asked to leave the classroom.

Grading Policy

1. Take-home quizzes (10%)
2. Assignments (20%)
3. One midterm (35%)
4. Final exam (35%)

Your letter grade will be based on the total number of points earned. The grading scale will be curved based on class performance.

There are four take-home quizzes. Quizzes will be assigned at the end of each chapter, from chapters 4 through 7, and will be due one week later. Solutions to the quiz problems will be discussed at the beginning of the following class.

More will be said about the assignments as they are announced.

The midterm covers chapters 3 through 7. The exam date will be announced at least two weeks in advance. The final exam covers the rest and will be held from 1:00 to 3:00 pm on Thursday, December 12. All students are required to take exams as scheduled. No early or late exams will be given.

Attendance and class participation are not a part of grading. However, if you miss four classes or less you will receive up to 3% extra credit added to your final grade based on your class participation. If you miss five classes, up to 2% extra credit will be added to your final grade based on your class participation. If you miss six classes, you can earn up to 1% extra credit based on your class participation.

Course Schedule

Part 0. Introduction

Course Objective and Outcomes (8/19)

Part I. Interest rates, Financial Instruments, and Financial Markets

Chapter 3. Financial Instruments, Financial Markets, and Financial Institutions (8/21)

Chapter 4. Future Value, Present Value, and Interest Rates (8/26, 8/28)

Chapter 5. Understanding Risk (9/4, 9/9)

Chapter 6. Bonds, Bond Prices, and the Determination of Interest Rates (9/11, 9/16, 9/18)

Chapter 7. The Risk and Term Structure of Interest Rates (9/23, 9/25, 9/30, 10/2)

Part II. Money Creation in the Modern Economy

McLeay, Michael, Amar Radia, and Ryland Thomas. "*Money in the modern economy: an introduction.*" (2014). (Short essay assignment 1, due on Sunday 9/22)

McLeay, Michael, Amar Radia, and Ryland Thomas. "*Money creation in the modern economy.*" (2014). (Part 2 of the midterm exam, due on Sunday 10/20)

Midterm Exam

Review (10/14)

Part 1: In-class Exam (10/16)

Part 2: Take-home Exam (Due on Sunday, 10/20)

Part III. Financial Institutions

Chapter 11. The Economics of Financial Intermediation (10/21, 10/23)

Chapter 12. Depository Institutions: Banks and Bank Management (10/28, 10/30)

Part IV. Central Banks, Monetary Policy, and Financial Stability

Chapter 15. Central Banks in the World Today (11/4, 11/6)

Chapter 16. The Structure of Central Banks (11/6)

Chapter 17. The Central Bank Balance Sheet and the Money Supply Process

Chapter 18. Monetary Policy: Stabilizing the Domestic Economy

Chapters 17 and 18 will be supplemented by the following articles that discuss similar topics:

Precrisis Monetary Policy (Short essay assignment 2, due on Sunday, 11/10)

Bernanke, Ben S. *Implementing monetary policy*. No. 81. 2005.

Postcrisis Monetary Policy (11/11, 11/13, 11/18)

Logan, Lorie. *Implementing monetary policy: perspective from the open market trading desk: remarks before the Money Marketeters of New York University*, New York City. No. 248. Federal Reserve Bank of New York, 2017.

Part V. Overview of Money and Banking

Money and Banking from the Perspective of What Money Really Is (Lecture Slides, 11/20, 11/25, 11/27, 12/2)

Final Exam

Review (12/4)

In-class Exam (1:00 - 3:00 pm on Thursday, 12/12)

Note: *This syllabus is meant to serve as an outline and guide for our course. Please note that I may modify it with reasonable notice to you. I may also modify the Course Schedule to accommodate the needs of our class. Any changes will be announced in class and posted on Canvas under Announcements.*