

ECO 301: Money and Banking
Instructor: James Murray, Ph.D.
Spring 2010

Instructor Information

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Meeting Time / Location

8:50am - 9:45am, Monday, Wednesday, Friday, Room 114 Carl Wimberly Hall.

Because the door to the classroom is in the front of the room, arriving late can be very disruptive to the class. Please be respectful of your instructor and your fellow classmates and arrive *before* class begins.

Course Description

An introduction to money, monetary policy, and banking, and their roles in the modern market economy. Attention is devoted to the current institutional structure in the U.S. and differing views on the relationship between money and the level of economic activity. Prerequisites: ECO 110, ECO 120.

Course Goals

The purpose of this course is to introduce students to financial and monetary markets and examine them within the context of the functioning of the macroeconomy. The goal is to provide students with an analytical framework for identifying problems in financial markets and/or the macroeconomy and thinking about appropriate economic policy that influences financial and monetary markets to remedy such problems.

Learning Objectives

For successful learning, it is important that you understand why we do the reading, lectures, assignments, etc, we do. Everything we do in this class is meant to achieve the learning objectives below. It would be useful for you to pay careful attention to what learning objectives the lectures and assignments are meant to achieve.

1. Understand and appreciate the importance of financial markets for the overall functioning of the economy.
2. Understand the role money plays in the interaction with markets for other assets.
3. Predict changes in interest rates using fundamental economic theories including present value calculations, behavior towards risk, and supply and demand models of money and bond markets.
4. Explain the structure of the Federal Reserve System and the mechanisms in which it controls the money supply.
5. Analyze macroeconomic problems and prescribe appropriate monetary policy solutions.

Course Resources

Textbook: Mishkin, Frederick S. *Economics of Money, Banking and Financial Markets*. Eighth Edition. Addison-Wesley.

Internet Resource: *MyEconLab*. This is an online economics course learning tool that complements our textbook. It provides many optional and required exercises to enhance your knowledge of economics, and

detailed immediate feedback on your work. You are required to purchase a subscription for \$45 online. Regular homework assignments will require you to use *MyEconLab*. REGISTRATION INSTRUCTIONS: You may register for *MyEconLab* online at <http://www.myeconlab.com>. When prompted use course ID: XL0G-D1VD-001Y-73L2. Under enrollment options, you need to select 'Buy Now'. Since you get the textbook for free from textbook rental, select 'MyEconLab without Pearson eText'.

Class website: <http://www.murraylax.org/eco301/spring2010/>. All material handed out in class will be posted on the class website. Grades, announcements and other communication will be done through Desire2Learn.

Office Hours

Regular office hours are 2:30pm-3:45pm Monday through Thursday. These are times when you can drop by announced and expect me to be in my office. If you would like to schedule an appointment for an alternative time, please send me an e-mail. Frequently keeping up with the material usually requires frequent office visits, so I feel frequently coming to my office for questions is essential to your success.

Office hours are not a substitute for attending class. Except when missing class for very extreme circumstances that were promptly discussed with me, it is not acceptable to use office hours to ask questions about material you missed while not in attendance.

Outside of my regularly scheduled classes and office hours, my availability changes all the time. You can visit my calendar at <http://www.murraylax.org/calendar.html>. It is constantly updated.

OFFICE HOURS SATISFACTION GUARANTEED!

I guarantee that coming to office hours to ask questions on material you don't completely understand will increase your grade in the class. If you come to office hours and still get questions wrong on the exam about the topic we discussed, I will give you those missed points back! This guarantee is subject to the following conditions:

1. Return of missed points is good for up to two topics on each exam, and up to a total of 10 percentage points per exam.
2. You and I must agree in writing using the form at the end on the syllabus, the topic that is guaranteed, and we both agree that I have explained the topic sufficiently, and that you have acquired a good understanding from our discussion.
3. You must have attended class when the topic was initially taught.
4. Only three guarantee forms may be filed before each exam.
5. Only one guarantee form may be filed on a single day. Therefore filing two or three guarantee forms will require two or three separate office hours visits, respectively.
6. After the exam, if you get questions wrong that were guaranteed, it is your responsibility to present your copy of the guarantee form and notify me you should get the points back.

Assessment

Learning will be assessed through weekly quizzes, homework, and exams. The grading breakdown will be:

Quizzes / In-class Exercises / Homework: 18%

Exam 1: 15%

Exam 2: 15%

Exam 3: 15%

Cumulative Final Exam: 20%

Debate Presentation: 15%

Required Economics Seminar Summaries (2 required): 2%

Extra-Credit Economics Seminar Summaries (maximum 2): 2%.

Grade Breakdown

93-100	A	67-76	C
89-92	AB	57-66	D
81-88	B	0-56	F
77-80	BC		

I reserve the right to scale every person's grade up by the same amount on any graded item in the event that much of the class falls short of the scale above. However, even if the grades are significantly low, there is no guarantee that I will ever do this.

Quizzes / Homework / In-class exercises

There will be many announced quizzes, unannounced (pop) quizzes, and in-class exercises given throughout the semester. Adequate preparation for these will involve reading ahead for class and completing homework assignments on time. Classes will begin with your questions so that you can resolve any problems with assigned work before the quiz begins. Quizzes may sometimes be open book and/or open note. Sometimes in-class exercises will be given, some of which must be done in small groups. Homework assignments will be given almost every week.

Exams

There will be three midterm exams and one cumulative final exam. Each exam is worth 20% of final course grade. All exams require a calculator, so be sure to bring a calculator to class on exam days. The calculator must not have non-calculator features (ex: internet, text messaging, telephone). You may not share calculators with other students. If you forget a calculator, it is certainly possible to make all necessary computations with a pencil and paper. The three midterm exams will be administered during regular class time and the final exam will be administered during final exam week according to the University final exam schedule. The exam dates are as follows:

- Exam 1: Wednesday, February 24.
- Exam 2: Wednesday, April 7.
- Exam 3: Wednesday, May 5.
- Final Exam: Friday, May 10, 2:30pm-4:30pm.

Economics Department Seminar Summaries

The Economics Department regularly brings in speakers that present new research in economics that they are in the process of creating. This is a unique opportunity to see where economics knowledge is expanding beyond your textbooks, right from the source where knowledge is being created. You will be required to attend at least two of these seminars and write a 300-400 word summary. I will be taking attendance at these seminars to ensure you actually attended the seminar you are writing about. It is your responsibility to make sure I have counted you in attendance if you are there.

EXTRA CREDIT OPPORTUNITY: You will also be able to earn extra credit for attending and summarizing an additional two seminars. If there are seminars beyond these four, you are of course still welcome to attend!

Note, most of these seminars may not be specifically about money and banking. This is expected. Regardless of the 300-400 level economics courses you may currently be taking, it is important for economics students of your level to begin developing an interest and knowledge in advanced topics of economics in a variety of fields. The schedule for the seminars will be posted on the class website when dates and times are known. The seminars are usually around 4pm on Fridays.

Debate Presentation

Work in groups of 5 and write and act out a debate on one of the seven questions below. Each group must work on a different topic, and your group must have your topic approved by me. The topics will be assigned to groups by first come, first serve. We will schedule the debate at least two weeks after you have been assigned your topic.

Your group is in charge of researching the question and finding interesting questions and issues to bring up during your presentation. The presentation should take a debate form. One or two moderators can introduce topics, provide background knowledge, and ask questions to the debaters. There should be at least two debaters, though there can be more, each providing a different point of view on the topic. It may be useful, though not required, to have PowerPoint slides either for the moderator to introduce ideas, or for the debaters to answer the questions. I advise you to have as few slides as possible, however; possibly only using the slides to show graphs.

The whole presentation should be scripted (perhaps word for word, or just note card reminders) and practiced before presenting in class. All members of the group should have roughly equal speaking time. The entire debate should be 8-10 minutes long. Going a shorter or longer period of time will result in a grade reduction. All debates will video taped, and the videos will be posted online for all to see. Accordingly, please dress and act professional, be informative, but also feel free to be entertaining.

In the seven topics below, each one gives you a guide to types of questions you can ask and places you may find useful information. You will likely need to research on your own other sources for information. You do not need to answer all the questions that are suggested in the descriptions, and you may also add your own sub-topics. Much of the raw data you need to answer the question can be obtained from the Federal Reserve Bank of St. Louis FRED (Federal Reserve Economic Data) data repository available at <http://research.stlouisfed.org/fred2/>.

1. *Explaining Interest Rate Behavior in the United States*. Take a look at the Application sections in your textbook, pages 105-108. Discuss how interest rates, expected inflation rates, and expected incomes are related. Discuss what you think can explain how interest rates have behaved both historically and since the most recent recession began. This is to be presented following Chapter 5.
2. *Yield Curve*. Take a look at the Application section of your textbook on pages 145-146, and current discussions of the yield curve from the Federal Reserve Bank of Cleveland, <http://www.clevelandfed.org/research/trends.cfm>. Discuss what affects the slope the yield curve. Find data concerning the yield curve within the last 6 months? What is going on in the economy that can explain this? Does the current yield curve imply any predictions about the future health of the economy. This is to be presented following Chapter 6.
3. *Quantity Theory of Money / Money Demand*. Discuss the strengths and weakness of the quantity theory of money. Are the various assumptions behind the theory relevant? only relevant in the short run? only relevant in the long run? Discuss whether you think velocity is constant, and what various other theories of money demand imply. This is to be presented following Chapter 19.

4. *Reforming the Federal Reserve System*. Read Belongia, Michael. 2009. "Reforming the Fed: what would real change look like?". Discuss strengths and weaknesses of the current structure of the Federal Reserve System, and what if any changes should be made to improve the system. This is to be presented following Chapter 12.
5. *Explain Endogenous Movements in Money Supply*. Read pages 359-364 of your textbook. Find current and historical data on M1 and M2 money supply, and determinants of money supply and the money multiplier process, such as excess reserves, non-borrowed reserves, and borrowed reserves. Discuss why money supply has behaved like it has in the past, and speculate what can explained what has happened since the onset of the latest recession. This is to be presented following Chapter 14.
6. *Recessions and Monetary Policy Responses during the 1970s*. Read the Application section on pages 577-580 and Alan Greenspan, 2004, "Risk and Uncertainty in Monetary Policy," American Economic Review. What problems was the United States experiencing at the time? What were the justifications for the monetary policies taken? Were these appropriate? This is to be presented following Chapter 22.
7. *Current Recession and Lender-of-Last Resort Policies*. Look at some (not all!) of the discussion of the current financial crisis and its implications for monetary policy on the Federal Reserve Bank of St. Louis's website: <http://timeline.stlouisfed.org/index.cfm?p=faq>. What lender-of-last resort actions have been taken? What is the justification for these policies? Are these the right actions to take? This is to be presented following Chapter 22.

Attendance

Attendance is required to receive credit for quizzes, in-class exercises, and exams. However, if you need to miss a class day or exam day because of illness or emergency you can be excused and arrangements can be made for you to make up missed word. The University is especially concerned with the possible spread of H1N1 influenza. To reduce the chance of spreading the disease, the University recommends that if you experience two or more symptoms of flu that you not come to class nor stay in dormitories, but rather go home where you have contact with few people as possible, and return only after you are symptom free for 24 hours without medication.

E-mail Guidelines

I insist on the following e-mail etiquette rules (many of these are also recommended by the College of Business Administration). Failure to adhere to these guidelines will result in a reply with a friendly reminder to follow these e-mail guidelines.

- Questions sent by e-mail should be able to be answered with only a few words, such as 'yes' or 'no' questions. Questions whose answers involve explaining class material are not appropriate over e-mail. For answers to these questions you should come to office hours, or send an e-mail requesting we meet at a different time.
- Always include a subject that is brief but still has sufficient detail.
- Look at your class notes and syllabus before sending an e-mail. Do not ask a question whose answer is on the syllabus or announced in class (unless you missed class for a legitimate reason).
- Always spell check, grammar check, and re-read your e-mail before sending it.
- When requesting to meet with me outside of regularly scheduled office hours, consult my calendar (<http://www.murraylax.org/calendar.html>) and suggest a time we meet in your first e-mail correspondence.

Classroom Behavior

Please adhere to these behavior guidelines:

- No using mobile phones, PDAs, or other personal electronics during class (i.e. no text messaging, e-mailing, or surfing the web with mobile phones). If you do text message during class, you agree to give me the right to take your phone for the remainder of the class, and write my own text message from your phone to whoever you were communicating with.
- Using laptops during class is not recommended. If you insist, laptops should be used for note-taking purposes only. You cannot use it for e-mail, surfing the web, or any other applications. Due to the nature of the course material (lots of graphs, math, etc), taking notes on a laptop would not be very effective.
- Please refrain from talking to those around you when I or one of your classmates is talking to the whole class. Even if you have a quick question like, “What did he just say?” do not whisper the question to your neighbor. Instead ask me.

Disabilities

Any student with a documented disability (e.g., physical, learning, psychiatric, vision, or hearing, etc.) who needs to arrange reasonable accommodations must contact the instructor and the Disability Resource Services office (165 Murphy Library, 785-6900) at the beginning of the semester. Students who are currently using the Disability Resource Services office will have a copy of a contract that verifies they are qualified students with disabilities who have documentation on file in the Disability Resource Services office. It is the student’s responsibility to communicate their needs with the instructor in a timely manner.

Academic Dishonesty

I follow the policy stated University Academic Handbook with regard to cheating and academic dishonesty. The student handbook can be found online at http://www.uwlax.edu/studentlife/eagle_eye.htm. In the event a student is caught cheating I will pursue the harshest penalty that the University will allow, regardless of how small the offense may appear.

Preliminary Topics Schedule

Below is a detailed list of topics and readings for this class. This is a preliminary schedule; depending on time constraints and the topics the class finds most interesting, we may choose to not cover some of the items below, cover items that are not shown below, or re-arrange the schedule. Details about the dates these topics are covered will be posted on the calendar on the class website, <http://www.murraylax.org/eco301/spring2010/calendar.html>

1. Introduction

(a) Why study money and financial markets?

- Mishkin, Chapter 1.

(b) Measuring Output, Income, and Inflation.

- Mishkin, Appendix of Chapter 1.

(c) Overview of financial system.

- Mishkin, Chapter 2.

2. Money and Financial Markets

(a) Behavior of Interest Rates.

- Basics of interest rates: Mishkin, Chapter 4.
- Supply and demand in bond markets: Mishkin, Chapter 5, pages 93-110.
- Term structure of interest rates: Mishkin, Chapter 6.

(b) Money.

- Introduction to Money: Mishkin, Chapter 3.
- Interaction of Money and Bond Markets: Mishkin, Chapter 5, pages 111-123.
- Demand for Money: Mishkin, Chapter 19.

3. Monetary Policy

(a) Structure of the Federal Reserve System

- Mishkin, Chapter 12.
- Belongia, Michael. 2009. "Reforming the Fed: what would real change look like?" Unpublished manuscript.

(b) Money Supply Process

- Mishkin, Chapters 13, 14.

(c) Monetary Policy Transmission

i. Short run, fixed prices transmission (IS/LM)

- Chapters 21, 22.

ii. Short run to long run, Aggregate Supply / Aggregate Demand

- Chapter 22.
- Greenspan, A., 2004, "Risk and Uncertainty in Monetary Policy," American Economic Review, 94: 33-40.

iii. IS/MP Model.

- Romer, David. 2002. "Short-Run Fluctuations". University of California Berkeley Unpublished manuscript.

Office Hours Guarantee

Name: _____
Date / Time: _____
Specific Topic Guaranteed: _____
Chapter / Reading Reference: _____
Description:

Student Signature

Instructor Signature

Student Copy

Office Hours Guarantee

Name: _____
Date / Time: _____
Specific Topic Guaranteed: _____
Chapter / Reading Reference: _____
Description:

Student Signature

Instructor Signature

Instructor Copy
