

ECO 301: Money and Banking
Instructor: James Murray, Ph.D.
Spring 2013

Instructor Information

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Meeting Time / Location

1:10pm - 2:05pm, Monday-Wednesday-Friday, Room 114 Carl Wimberly Hall.
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 the macroeconomy, and thinking about economic policies that influence financial and monetary markets to remedy such problems.

Learning Outcomes

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 outcomes below. It would be useful for you to pay careful attention to what learning outcomes the lectures and assignments are meant to achieve.

1. Describe how financial markets affect the overall functioning of the economy.
2. Define different measures of money, and analyze a market for money to predict changes in interest rates and the quantity of money in the economy.
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. Describe how interest rates, interest rate risk, and expectations of future interest rates affect decisions made by consumers and financial institutions.
5. Identify market failures in financial markets, describe their impact on the financial markets and the macroeconomy, and suggest market or government policy solutions to address these problems.
6. Explain the structure of the Federal Reserve System and the mechanisms in which it controls the money supply.
7. Identify and analyze macroeconomic problems using graphical and computational models and prescribe appropriate monetary policy solutions.

Expectations for Critical Thinking and Communication (CTC)

This is an Economics CTC course, which means it has been recently redesigned around a new Economics Department initiative to help students improve their critical thinking skills and their communication skills. The course includes a number of writing assignments that ask you to synthesize course content with ideas you may have learned in other economics courses, and use these ideas to *critique* theories or policies and make informed *judgments* on the value of theories or policies. Students in this course and in all CTC courses in the economics department will be required to do a semester-long project (details below) and present their work at the student poster conference, the Economics Department's Celebration of Student Inquiry in Economics. The date, time, and location of the event is to be announced, but will most likely take place during the last week of class.

Course Resources

1. Textbook: Hubbard, R. Glenn, and O'Brien, Anthony P., *Money, Banking and Financial System*. Addison-Wesley.
2. Class website: <http://www.murraylax.org/eco301/spring2013/>. All material handed out in class will be posted on the class website. Grades, announcements and other communication will be done through Desire2Learn.
3. *Desire2Learn* will be used for turning in homework assignments, taking quizzes and exams, and communicating grades.

Office Hours

Regular office hours are 10:00am - 11:00am on 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.

Assessment

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

- Quizzes / In-class Exercises / Homework: 10%
- Writing assignments: 15%
- Project: 20%
- Exam 1: 20%
- Exam 2: 20%
- Cumulative Final Exam: 15%

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 will be done in small groups.

Exams

There will be two midterm exams and one cumulative final exam. The midterm 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, language translation). You may not share calculators with other students. If you forget a calculator, it is possible to make all necessary computations with a pencil and paper. You may not use electronic language translation devices during exams, but you may use a paper-bound translation dictionary if necessary. The two 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, March 13.
- Exam 2: Friday, April 26.
- Final Exam: Tuesday, May 14, 10:00am-12:00pm (same room as class).

The final exam time is determined by the university-wide final exam schedule given here, <http://www.uwlax.edu/records/Timetable/finalexamschedule.htm>.

Written Final Exam

The learning outcomes above are your final exam. Your task on the final exam is to use the two hours to (1) identify, explain, and analyze the most important concepts from class that are associated with each learning outcome, (2) organize these ideas around the theme described by the learning outcomes, and (3) demonstrate you have achieved the learning outcome in your writing. The final exam will be closed book, closed notes, except that you may bring one 8 1/2 by 11 inch piece of paper with an outline of what you would like to write for the exam. Since you know what the final exam will be from the first day of class, I suggest you work on these essays throughout the semester.

Essays on Economics Department Seminars

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 our textbooks, right from the source where knowledge is being created. You will be required to attend at least *three* of these seminars and *write a 500-800 word reflection* (about 2-3 typed, double spaced, pages) for each.

Address the following in your reflection essays:

1. What is the *purpose* of the research project or what is the *research question*? Why does the author argue that this is an important or interesting question to answer?
2. Briefly describe the author's methodology. That is, how does the author answer the research question? What kind of data or variables does the author investigate? What comparisons or relationships does the author investigate? This is usually the hardest part of the presentation to understand. Don't worry about trying to understand everything. Try to understand the big picture, and give just a brief description of the methodology.
3. What are the author's conclusions? What did the author find out out?
4. Your reflection / evaluation: Evaluate whether the author's work, conclusions, or findings are interesting or important. If you think the author's work is interesting and important, give some arguments to defend so. If you can think of something further or something more interesting that he author could have investigated, make this suggestions.

Don't be afraid to ask questions of the speakers when you don't understand enough. While you may reveal that you did not understand something, you will not look stupid. On the contrary, you will give the impression to the speaker and to the economics professors in the room that you are interested, engaged, and brave. The speaker will definitely appreciate seeing students participating in an attempt to understand their work.

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.

Tentative schedule of Economics Department Seminar Speakers:

- Friday, February 15, 3:30-4:30pm: Mark Weder, University of Adelaide, Australia.
- Monday, February 25, 3:30-4:30pm: Dave Surdam, University of Northern Iowa.
- Friday, April 5, 3:30-4:30pm: Matt Holt, University of Alabama.
- Friday, April 12, 3:30-4:30pm: Sanjukta Roy, World Bank.
- Friday, April 26, 3:30-4:30pm: Susan Wolcott, Binghamton University.

Note, this is a tentative schedule. Dates and times are subject to change, and cancellations and additions are possible. Please stay tuned for updates to the schedule.

Project

You will conduct your own research project in which you will choose a specific topic; review recent and relevant literature in the field; discuss differences in views or conclusions reached in different papers; and provide an evidence-based argument for a particular view point. You will write paper and give a poster presentation of your project. Your paper may be of any length, but to appropriately and adequately address the requirements of the assignment, I expect 10-15 double-spaced pages will be appropriate.

Purpose: Your target audience consists of intelligent adults who have at least some basic knowledge of economics (though likely without a strong foundation in your particular field) and have a strong interest in economics. This includes other college students who have a major or minor in economics or a related field, and current economics and business instructors.

Your purpose is to share with your audience an important issue in your field, convince them that the topic of your project is something they should want to know more about, give them enough background knowledge so they are better informed on this particular issue, develop and share your own conclusions/evaluations/judgments on the issue, and convince your audience of your conclusions while sharing with them enough information so they can reach their own informed conclusions.

Paper and Organization: You may organize your paper in any way that you find appropriate, though you may find it useful to organize your paper into the following sections:

- *Introduction:* Introduce and motivate your research topic, provide relevant background information so that your readers have the information they need to understand your paper and understand why the issue is important.
- *Literature review:* Describe the important literature in this field. Be careful to not make this section sound like a list (this paper does this, then this paper does this, then this paper does this, etc). Let this section tell a story. For example: What are competing ideas in this field? Why do experts have these ideas? What evidence is there in favor or against these ideas? How has knowledge or views in this area evolved? Organize this section around ideas.
- *Argument:* Make an argument for a particular viewpoint or conclusion, and back it up with evidence or data. This is your unique contribution to the discussion of this literature. Depending on your reader, this can be the most important aspect of your paper. Readers can get background information and other people's ideas from reading other papers. People would choose to read your paper to see the existing knowledge put into a unique perspective, as a way to see evidence in favor or against a particular conclusion.
- *Conclusion:* Review the question you explored, the evidence you obtained and the conclusion you reached. Take the discussion a step further by admitting drawbacks to your arguments, discussing a path where more research should be done, or speculate on the next steps policy makers or other researchers could take given your conclusions.

Poster Presentation: You will give a poster presentation of your work, along with all of your classmates, and along with students in some other upper-level economics classes. You will create a digital poster (one or more slides to project on a large-screen LCD TV) that communicates the most important background information, ideas, and conclusions of your paper. At a poster-presentation session near the end of the semester, you will stand with your poster for about 15-20 minutes and discuss your work with other students and faculty members who are browsing all the posters.

Possible topics: There are countless topics that you can explore. Below are some suggestions to help you get started. While I hope you find these ideas useful, all of these need to be narrowed down further to make an appropriate research paper. Feel free to find your own topic outside this list, but first discuss your idea with your instructor.

1. Monetary policy during a particular episode in the United States or another country: Explore what was the conduct of monetary policy during a particular point in time, such as a financial crisis or recession. For example, what actions did the Federal Reserve take following the “Great Inflation” of the late 1970s? What was the justification or what were the goals for this course of action? Was it effective? What more, or what alternative policy, could have been done?
2. Yield curve: What explains movements in the yield curve? Can the yield curve shed light on problems in the economy? Can the yield curve shed light on the effectiveness of monetary policy? Can the yield curve be an effective tool for forecasting?
3. Effectiveness of monetary policy at the zero lower bound: In 2010 the Federal Reserve lowered its key interest rate, the Federal Funds rate, to between 0% and 0.25%. Unable to lower short-term interest rates like this any further, the Fed has conducted rounds of “quantitative easing” since then - expanding money supply even further and in some unique and deliberate ways. Explore these actions, the reasoning behind such policies, and speculate whether these have been effective.
4. Central bank independence: Many argue that allowing a central bank to operate independently from elected policy makers (while still allowing for long-run oversight) is essential for macroeconomic stability. Discuss the arguments and evidence for and against this proposition.
5. Monetary policy targets - inflation targeting versus output stabilization: Should the central bank concern itself with trying to stabilize macroeconomic downturns, focus primarily on maintaining a low, stable inflation rate, or some combination of the two?
6. Regulations and oversight of financial institutions: Should the Central Bank increase/decrease its oversight of the actions of financial institutions in order to reduce individual risky behavior and reduce systemic risk.

Rubric Describing Expectations for Critical Thinking

The College of Business Administration has a common rubric to evaluate *critical thinking* in all of our courses. We use this rubric to assess student learning throughout the college, and use this student performance data to inform decisions to make changes curriculum and/or in teaching strategies. I share this with you so that you know what our expectations are of you for demonstrating critical thinking in your writing assignments and poster presentation.

1. CBA Trait: Identifies the problem or question.

Below Expectations	Meets Expectations	Above Expectations
Does not identify a problem or question.	Identifies the basic problem with no elaboration.	Identifies and recognizes the complexity of the problem.

Possible evidence in economics work:

- (a) Students use economic models or reasoning to identify market failures.
- (b) Students use econometric or statistical reasoning to identify a difficulty answering a research question concerning a social or economic issue.
- (c) Students use economic models or reasoning to determine a discretionary policy or public policy can address an issue.

2. CBA Trait: Acquire appropriate information or evidence to frame business decisions.

Below Expectations	Meets Expectations	Above Expectations
Identifies a limited number of relevant variables.	Identifies the most relevant variables for the problem or decision and does not consider irrelevant variables.	Identification of relevant variables demonstrates throughout consideration of the problem.
Few sources are identified and/or they are not objective.	Sources of information are identified and are all objective.	Sources of information are identified and are all objective <i>AND</i> student demonstrates a breadth of approaches in the sources of information <i>OR</i> student evaluates the quality of information sources.

Possible evidence in economics work:

- (a) Students consider the most relevant variables or concepts to focus their analysis. The intentions of the variables may be to:
 - Measure or speak to the existence of an economic problem or question with one or more pieces of evidence (factors, variables).
 - Identifies variables that measure relevant economic relationships
 - Identifies variables that measure the effectiveness of one or more solutions to an economic problem.
- (b) Students use academic sources that include a diversity of perspectives.
- (c) Students use academic sources from a diversity of fields in economics and/or related disciplines.
- (d) Students compare how strongly academic sources speak to their particular economic issue.
- (e) Students identify limitations or open questions in one or more academic sources.

3. CBA Trait: Develop relevant approaches or solutions by integrating positions or perspectives.

Below Expectations	Meets Expectations	Above Expectations
Considers only one or limited positions or perspective and does not consider that they are related.	Integrates several positions or perspectives AND considers how they are related.	Multiple diverse positions or perspectives are considered and considers relationships.

Possible evidence in economics work:

- (a) Students synthesize ideas from a diversity of economic concepts or a diversity of economics or related fields.
- (b) Students suggest more than one solution or answer to their economic issue, which are based on a diversity of perspectives.
- (c) Students discuss how two or more positions, perspectives, solutions or answers are related to each other.
- (d) Students discuss how models or theories are related to each other.

4. CBA Trait: Evaluates or draws conclusions about the potential impact of alternatives

Below Expectations	Meets Expectations	Above Expectations
Fails to draw conclusions based on the evaluation, or draws conclusions which contradict the evidence or context.	Identifies and discusses conclusions which consider the context, but uses some, but not all, of the evidence considered.	Identifies and discusses conclusions, implications, or consequences which consider context, and all evidence considered. Objectively reflects upon their own assertions.

Possible evidence in economics work:

- (a) Students suggest an answer or solution logically based on a diversity of evidence from multiple perspectives or multiple fields in economics or related disciplines.
- (b) Students make discretionary or public policy recommendations considering both benefits and costs to the policy action.
- (c) Students expound on statistical results to reveal implications in an economic context.

Rubric Describing Expectations for Written Communication

The College of Business Administration has a common rubric to evaluate *formal writing* in all of our courses. We use this rubric to assess student learning throughout the college, and use this student performance data to inform decisions to make changes curriculum and/or in teaching strategies. I share this with you so that you know what our expectations are of you in terms of your written, final paper.

Trait	Below Expectations	Meets Expectations	Above Expectations
Purpose and audience is addressed	Demonstrates minimal attention to purpose and audience: purpose is not clear to reader, or writing is inappropriate for audience.	Demonstrates an awareness of purpose and audience: purpose is generally clear to reader and audience is addressed in a generally acceptable manner.	Writing consistently: maintains focus on purpose and appropriately addresses audience.
Organization of ideas and content is logical	Organization of ideas and content is ineffective and/or unfocused: paragraphs are not coherent and/or transitions are lacking.	Organization of ideas and content contributes to understanding: Paragraphs contain coherent ideas; transitions are used between most ideas.	Organization of ideas and content clearly create understanding: Paragraphs contain coherent ideas which are effectively connected with transitions. Writing is very focused and concise, with clear introduction and conclusion.
Content/ideas are developed	Content is used to identify only ideas that are obvious.	Content is used to explore ideas.	Content is used to convey depth of ideas.
Sources or evidence support ideas	Uses minimal evidence to support ideas and/or does not cite sources.	Uses evidence to support ideas and/or cites sources but some inconsistencies exist.	Uses evidence to thoroughly support ideas and consistently cites sources appropriately.
Genre or disciplinary rules are followed	Use of important conventions is inconsistent.	Demonstrates consistent use of most important conventions particular to a specific discipline and/or writing task(s).	Demonstrates consistent use of all conventions particular to a specific discipline and/or writing task(s).
Grammar, spelling and syntax is correct	Meaning of language is impeded due to errors.	Language has few errors.	Language conveys ideas succinctly and is nearly error free.

Rubric Describing Expectations for Oral Communication

The College of Business Administration has a common rubric to evaluate *oral presentations* in all of our courses. We use this rubric to assess student learning throughout the college, and use this student performance data to inform decisions to make changes curriculum and/or in teaching strategies. I share this with you so that you know what our expectations are of you for your final project poster presentation.

Trait	Below Expectations	Meets Expectations	Above Expectations
Verbal delivery achieves purpose (a) language, (b) voice, (c) pace.	(a) Language is inappropriate for the audience; (b) Voice is inaudible or lacks expression; (c) Pace is halting or too fast to understand	(a) Language is appropriate for the audience; (b) Voice is generally audible with some expression; (c) Pace is generally understandable	(a) Language is appropriate for the audience; (b) Voice is always audible and appropriately expressive; (c) Pace flows and maintains interest
Physical delivery achieves purpose (e.g. mannerisms, eye contact) (a) delivery technique (b) poise	(a) Physical delivery detracts from the presentation; (b) Speaker appears uncomfortable.	(a) Physical delivery makes the presentation understandable; (b) Speaker appears comfortable.	(a) Physical delivery makes the presentation interesting; (b) Speaker appears confident.
Use of media helps to deliver information/ideas	Visual aids are sometimes irrelevant and/or fail to convey information which improves understanding of the content.	Visual aids are relevant and convey information which improves understanding of the content.	Visual aids are relevant, clear, and generate interest and understanding of the content.
Organization of ideas and content is logical (introduction, transitions, conclusions)	Organizational sequence is not clear, and/or presentation feels disjointed.	Organizational sequence is clear with only minor transitional problems.	Organizational sequence is clear and creates a cohesive presentation.
Content and ideas are developed	Information is insufficient to support the ideas presented or irrelevant content is presented.	Information is generally sufficient to support the ideas presented and minimal irrelevant content is presented.	Information is relevant, supports the ideas presented and lends credibility to conclusions.
Central message is conveyed	No conclusions are presented.	Conclusions are presented although the central message lacks focus or is not compelling.	Conclusions make clear a compelling central message of the presentation

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 work.

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.

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.

1. Introduction

- Introduction to Money and the Financial System: Hubbard & O'Brien, Chapter 1.
- Overview of financial system: Hubbard & O'Brien, Chapter 2.

2. Financial Markets

(a) Behavior of Interest Rates.

- Basics of interest rates: Hubbard & O'Brien, Chapter 3.
- Supply and demand in bond markets: Hubbard & O'Brien, Chapter 4.
- Term structure of interest rates: Hubbard & O'Brien, Chapter 5.

(b) Financial Institutions

- Transaction costs and Asymmetric Information: Hubbard & O'Brien, Chapter 9.
- Economics of Banking: Hubbard & O'Brien, Chapter 10.
- Investment Banks, Mutual Funds, Hedge Funds, and the Shadow Banking System: Hubbard & O'Brien, Chapter 11.
- Financial Crisis and Financial Regulation: Hubbard & O'Brien, Chapter 12.

3. Monetary Policy

(a) Structure of the Federal Reserve System

- Hubbard & O'Brien, Chapter 13.

(b) Money Supply Process

- Hubbard & O'Brien, Chapters 14, 15.

(c) Monetary Policy Transmission

- Short run to long run, Aggregate Supply / Aggregate Demand: Hubbard & O'Brien, Chapter 17.
- IS/MP Model: Hubbard & O'Brien, Chapter 18.