

ECO 301: Money and Banking - Fall 2016

Instructor Information

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Meeting Time / Location

12:40 - 2:05 PM Tuesday and Thursday, Room 114 CWH

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.

The purpose is to introduce financial and monetary markets and examine them within the context of the functioning of the macroeconomy. The course provides 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 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. 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. Describe the role expectations play in determining equilibrium in financial markets and the macroeconomic impact from monetary policy.
7. Explain the structure of the Federal Reserve System and the mechanisms in which it controls the money supply.
8. Explain possible causes for recent financial crises, describe potential consequences for the macroeconomy, and prescribe potential monetary policies to counteract or prevent financial crises.
9. Identify and analyze macroeconomic problems using graphical and computational models and prescribe appropriate monetary policy solutions.

Economics Major Learning Outcomes

As intermediate macroeconomics is an important element of the economics major, the course-specific learning objectives listed above contribute to the following learning objectives for the economics major:

1. Critical Thinking Skills:
 - (a) Apply economic reasoning to explain social and economic events.
 - (b) Predict the impact of private and public proposals and changing market conditions on social welfare using economic models.
 - (c) Compare the models' strengths and weaknesses in explaining outcomes.
2. Problem Solving Skills:
 - (a) Identify and analyze a problem within the framework of economic models.
 - (b) Evaluate, critique, and formulate solutions to an identified problem.
3. Communication Skills:
 - (a) Communicate effectively the results of economic research and analysis to colleagues and decision-makers through written reports and oral presentations.

Expectations for Critical Thinking and Communication (CTC)

This course emphasizes critical thinking and communication applications. 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 two weeks of the semester.

Course Resources

Textbook: Glenn Hubbard and Anthony P. O'Brien (2014). *Money, Banking, and the Financial System*. Second Edition.

Class website: <http://www.murraylax.org/eco301/fall2016/>. All material handed out in class will be posted on the class website.

Desire2Learn (D2L): Grades will be posted on D2L, and some quizzes may be administered on D2L. Most of the class material will be posted on the class website.

Office Hours

I am available for office hours **by appointment with a minimum of only one hour notice**. You may schedule a 15 minute appointment by visiting <https://murraylax.youcanbook.me>. The blocks of time that I am available each week vary and are kept up to the minute on the YouCanBook.Me online scheduler. Additional walk-in office hours will be added as necessary, especially during exam weeks and weeks with significant homework deadlines. My typical weekly availability is given below.

8:30 AM - 10:30 AM	Monday, Wednesday, Friday
1:30 PM - 2:30 PM	Monday and Wednesday
2:30 PM - 4:00 PM	Tuesday and Thursday

Scan code or visit
<https://murraylax.youcanbook.me>
to make an office hours appointment.



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.

OFFICE HOURS SATISFACTION GUARANTEED!

I guarantee that coming to office hours to ask questions on material you do not 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 refund those points! This guarantee is subject to the following conditions:

1. Refund points are 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 that the topic that is guaranteed. On this form 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 before an exam will require at least 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 recognize this and present your copy of the guarantee form to notify me you should get the points refunded.

Assessment

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

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

Grade Breakdown

94-100	A	77-81	BC
89-93	AB	70-76	C
82-88	B	0-69	F

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.

Graded Coursework Response Time

I will return all graded work to you within two weeks of the due date, or before the next exam date if the work is relevant practice for the exam. Work that is turned in late may not be accepted, but if so, I may not be able to grade the work within the two-week time frame. Grades will be posted on the D2L gradebook on or before the date I return the graded work to the class. I will return graded coursework in compliance with FERPA regulations, such as in class or during my office hours. I will bring your graded coursework to class only once. If you are not in attendance when coursework is returned, it is your responsibility to make arrangements to pick your work.

In-class Exercises and Quizzes

There will be many announced and unannounced in-class exercises and quizzes given throughout the semester. These are based on class lecture, prerequisite knowledge, assigned reading, or other suggested work, and are designed to communicate learning expectations and give you quick feedback on how well you are achieving these. Classes will begin with your questions so that you can resolve any problems with assigned work before the quiz begins.

Homework Assignments

There may be some homework graded assignments assigned throughout the semester which are weighted equally to in-class exercises and quizzes. Some non-graded and non-collected homework assignments may also be given throughout the semester. If you do not have any questions about the non-graded, non-collected homework assignments, I will assume you did complete and understand them.

Exams

There will be two midterm exams and one final exam. The midterm exams cover primarily material since the previous exam, but the second exam may include earlier material. The final exam is cumulative. All exams require a calculator, so be sure to bring a calculator to class on exam days. You may not share calculators with other students. Unless otherwise enforced by university policy, you must take the final exam at the scheduled given below. The exam dates are as follows:

- Exam 1: Thursday, October 13.
- Exam 2: Thursday, December 1.
- Final Exam: Wednesday, December 21, 7:45 AM - 9:45 AM, Room 114 CWH
The UWL final exam schedule can be found here:
<http://www.uwlax.edu/Records/Final-Exam-Schedule/>

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 two 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 seminars:

- Friday, October 14, 3:30-4:30 PM: Rod Fort, University of Michigan
- Thursday, October 27, 3:30-4:30 PM: Bryan Caplan, George Mason University
- Friday, November 4, 2:15-3:30 PM: Tonmoy Islam, Elon University
- Monday, November 7, Time TBA: UWL Conversation with Economists
- Friday, December 9, 2:00-5:00 PM: Celebration of Student Inquiry in Economics

Research Projects

You will conduct *two* of your own mini-research projects 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. Each paper should be approximately 3-5 double-spaced pages in length.

Audience: Think of your target audience as intelligent adults with an interest in economics and who have at least some basic knowledge of economics, though perhaps have not completed ECO 301 and do not have a strong background in your particular topic. This includes other college students who have a major or minor in economics and current economics and business instructors.

Paper components: The following are important components to your paper. You may find it convenient to organize your paper in the order below, but you may choose any organization that you find most convenient for your work so long as the following components are addressed.

- *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 disagree on 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 the most important aspect of your paper. Readers can get background information from reading other papers. People 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 and the answer/argument/conclusion at which you arrived. Take the discussion a step further by admitting drawbacks to your arguments, discussing a path where more research should be done, and/or speculate on the next steps policy makers or other researchers could take given your conclusions.

Writing Center: Consider consulting with the UWL Writing Center. The writing center tutors are able to assist with a wide variety of writing assignments. They can assist you at any stage of the writing process (as long as it is not the last minute!), from understanding the assignment, to organizing and revising, to polishing the paper.

- *Location:* Murphy Library Learning Center, Room 256.
- *Web:* <http://www.uwlax.edu/writingcenter>
- *Email:* writingcenter@uwlax.edu
- *Hours:*
 - 9:00 AM - 1:00 PM Mon Wed Fri
 - 10:00 AM - 1:00 PM Tue Thurs
 - 3:00 PM - 8:00 PM Mon Tue Wed Thurs
 - 4:00 - 8:00 PM Sun

Possible paper 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. *Quantitative easing:* What has been the 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,” expanding money supply even further and in some unique and deliberate ways. Explore these actions, the reasoning behind such policies, and argue whether these have been effective.
2. *Negative interest rates:* Following the most recent recession and financial crisis, interest rates in the United States and in many places in the world approached 0%, limiting further traditional monetary policy to stimulate the economy. Some countries have responded by lowering interest rates below zero, so that financial institutions have to instead *pay interest* for the privilege of holding on to reserves.
3. *Monetary policy history:* Investigate monetary policy during a particular episode in the United States or another country’s history. 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 could have been done. What alternative policy could have been done?
4. *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?
5. *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.
6. *Monetary policy targets:* Should a central bank be more concerned with inflation targeting or output stabilization? That is, 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?
7. *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.
8. *Exchange rate defense:* Some countries charge their central bank with managing the exchange rate, whether this means keeping the exchange rate fixed with respect to another currency or maintaining a slowly moving floating peg. There are many of historical incidents of speculative attacks on currencies, where financial investors suddenly pull financial assets out of the country which results in a sudden and significant depreciation of the currency. A central bank can reverse or counter the depreciation by using its international reserves to buy its own currency, reducing the supply of its own currency and therefore pushing up the equilibrium exchange rate (the equilibrium price of the currency). Pick one or more countries where a speculative attack happened, discuss the episode, discuss the central bank’s response or lack of response, and argue whether the policy was appropriate.

Poster Presentation

Near the end of the semester you will present one of your projects at your choosing at the December 2016 Celebration of Student Inquiry in Economics, which is a joint poster-session conference with several other 300+ 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.

Presentation Guidelines: The poster presentation involves standing with your poster for about 15-20 minutes and discussing your work with other students and faculty members who are browsing all the posters.

- Your poster needs to be self-explanatory. You need to make sure everyone will understand your research question, your methodology (if it applies), and the conclusion (or result) of your research by just looking at your poster.
- Do not overload your poster with information and text. Summarize, use bullet points, and avoid long sentences. You can explain things in more detail in the oral presentation.
- If you are including tables and/or graphs, make sure the graphs are self-explanatory and all elements are visible. Do not forget to label your graphs with titles, axis labels, legends.
- Be prepared to give a 1 minute summary of your research question and to answer any question audience may have.
- Be prepared for a 5 minute summary in order to provide your audience with a more detailed description of your research, in case the audience is interested.
- Think carefully about presentation skills:
 - Make eye contact with the audience
 - Be confident and comfortable with your research question
 - Speak clearly, loud enough, and at an appropriate pace.
 - Dress appropriately and look professional.
 - Be good colleagues. Circulate around the conference to see what your fellow students have worked on and ask questions. I encourage you to attend and participate in the entire conference.

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. Attendance to your group meetings is always required, unless your group excuses you for illness or emergency according to the terms of your group's contract.

Eagle Alert System

This class will be participating in the UWL Eagle Alert system through WINGS. The Early Alert system is designed to promote student success. If I notice that you are experiencing difficulties early in the semester (e.g., low assignment scores, poor attendance, minimal engagement in the classroom), I may enter feedback into the program and you will receive an email indicating that feedback has been left. I may also enter positive feedback encouraging you to think about additional opportunities. You will be able to access the feedback through your student center in WINGS. I encourage you to meet with me and use one or more of several helpful campus resources listed here <http://www.uwlax.edu/studentsuccess/>.

Online Student Evaluation of Instruction (SEI)

The university conducts student evaluations electronically. Approximately 2 weeks prior to the conclusion of a course, you will receive an email at your UWL email address directing you to complete an evaluation for each of your courses. In-class time will be provided for students to complete the evaluation in class. Electronic reminders will be sent if you do not complete the evaluation. The evaluation will include numerical ratings and, depending on the department, may provide options for comments. The university takes student feedback very seriously and the information gathered from student evaluations is more valuable when a larger percentage of students complete the evaluation. Please be especially mindful to complete the surveys.

Veterans and Active Military Personnel

Veterans and active military personnel with special circumstances (e.g., upcoming deployments, drill requirements, disabilities) are welcome and encouraged to communicate these, in advance if possible, to me. For additional information and assistance, contact the Veterans Services Office (<http://www.uwlax.edu/veteran-services/>). Students who need to withdraw from class or from the university due to military orders should be aware of the military duty withdrawal policy (<http://catalog.uwlax.edu/undergraduate/academicpolicies/withdrawal/#military-duty-withdrawal-university>).

Mandatory reporter statement

As a faculty member of the University of Wisconsin-La Crosse, I am a mandated reporter of sexual harassment (including sexual violence). This means that faculty are obligated to disclose any detailed or specific information we receive about such incidents involving a member of this campus while that person is a member of this campus, regardless of whether the incident takes place on campus or off. If you believe you or another member on campus may be a victim or witness of sexual harassment, you should know your options under the Title IX guidelines. There are confidential reporters for UWL students where you can have this discussion. The contact in Student Life is Ingrid Peterson, Violence Prevention Specialist, at (608) 785-8062 or ipeterson@uwlax.edu. I am also happy to help you find counseling and support services. Simply ask me to assist you in locating a confidential reporter and I will do so.

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.

- Allow one business day to elapse before expecting a reply.
- 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.
- Always include a subject that is brief but still has sufficient detail, *including the class you are in (ECO 301)*.
- 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.

Students with Disabilities

Any student with a documented disability (e.g. ADHD, Autism Spectrum Disorder, Acquired Brain Injury, PTSD, Physical, Sensory, Psychological, or Learning Disability) who needs to arrange academic accommodations should contact The ACCESS Center (165 Murphy Library, 608-785-6900, ACCESSCenter@uwlax.edu) and meet with an adviser to register and develop an accommodation plan. In addition to registering with The ACCESS Center, it is the student's responsibility to discuss their academic needs with their instructors. You can find out more about services available to students with disabilities at The ACCESS Center website: <http://www.uwlax.edu/access-center>.

Academic Misconduct

Academic misconduct is a violation of the UWL Student Honor Code and is unacceptable. I expect you to submit your own original work and participate in the course with integrity and high standards of academic honesty. The UWL Student Honor Code can be found online at <http://catalog.uwlax.edu/undergraduate/academicpolicies/studentconduct/>. In the event a student is caught committing academic misconduct, I will pursue the harshest penalties allowed according to the UWS 14 Student Academic Disciplinary Procedures, which can be found here <http://www.uwlax.edu/Student-Life/Student-handbook/#14>.

Preliminary Topics Schedule

Below is a 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.

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
