

ECON-332: Money, Banking, and Finance in the Global Economy

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Please put "econ-332 money" in the subject line
Class website: AU blackboard

"[S]o much barbarism ... still remains in the transactions of most civilized nations, that almost all independent countries choose to assert their nationality by having, to their own inconvenience and that of their neighbors, a peculiar currency of their own."

-- J.S. Mill, *Principles of Political Economy*, Book III, Chap. 10 (1848)

Course description

This class covers the economics of money, banking and capital markets in a globalizing world. Instead of the U.S.-oriented, "closed economy" approach taken in traditional money and banking classes, this class takes a globally-oriented, "open economy" approach better suited to present-day realities of money, banking, and capital markets.

Part 1 of the class provides a basic overview of the economics of money, financial institutions, and financial markets and discusses the forces underlying financial globalization. Part 2 covers issues of national money and monetary policy: definitions of money, basics of central banking, and stabilization policy. Part 3 looks at international aspects of monetary policy, including exchange-rate regimes, innovative monetary arrangements (monetary unions, currency boards, dollarization), and competition among international currencies. Part 4 examines banking and finance and their relationships with monetary policy, paying notable attention to problems of bank regulation (domestic and international), mortgage markets, and derivatives and hedge funds.

Required readings

- The text for the class is Frederic Mishkin, *The Economics of Money, Banking, and Financial Markets*, 8th edition, 2007.
- *The Economist*. Instructions for signing up for a 12-week subscription are given on the last page of this hand-out. Price is \$19.95. Sign up right away! The subscription gives you weekly delivery of the print version and unlimited access to the magazine's website (www.economist.com).
- Additional readings are found in the "Course Documents" area of the class Blackboard site, or will be distributed in class.

Overview of grades, tests and dates		
Item	% of final grade	Dates
Eviews assignment	12.5	Friday, Sept. 26
Other assignments	7.5	2-3 over the course of the semester
Current-events analysis	5.0	Once during the semester -- schedule to be distributed soon
Test on fundamentals	17.5	Tuesday, Oct. 7
6-8 page paper	25.0	1-page summary submitted to Prof. Starr by Oct. 21 Due the last day of class, Friday, Dec. 5 {or before}
Final exam	25.0	Friday, Dec. 12, 8:30-11:00am
Class participation	7.5	Throughout the semester { <i>policies given below</i> }

Eviews assignment

This assignment requires you to upload macro/financial data into the econometric software package Eviews, perform basic computations, produce graphs, and analyze what the data show. Basic proficiency in econometric software is very valuable for lining oneself up for interesting entry-level employment; this assignment will hopefully illustrate how painless and interesting using such software can be. If all goes as planned, we will have an "Intro to Eviews" workshop in the Social Science Research Lab during class on Sept. 16 (to be confirmed).

Other assignments

Other assignments will be handed out 7-10 days before they are due and will also be posted in the 'Assignments' area of the Blackboard site. Assignments involve two types of work: (1) *Mini-research projects*, intended to build your skills in collecting, interpreting and analyzing economic data and your ability to relate your findings in a clear, compelling way; and (2) *Practice problems*, which are quantitative exercises intended to provide practice for quantitative-type questions that could appear on exams. Working together on assignments is encouraged -- but you must write up your answers independently.

Current-events analysis

Every Friday we will discuss important monetary and financial events written about in previous week's *Economist*. On one Friday during the semester, you will be required to present a story related to ideas and issues being discussed in class, and to give an analysis of it. The analysis should also be written up in 1-2 pages and submitted to Prof. Starr. Detailed instructions and a schedule will be distributed soon.

6-8 page paper

This paper can be on a topic of your choice related to the theories, issues, ideas, and/or policy debates discussed in this class. Detailed instructions will be distributed soon. To make sure that your project is viable and well-framed, a 1-page explanation of your intended topic should be submitted to Prof. Starr by Oct. 21.

CLASS PARTICIPATION

7.5% of the total grade comes from class participation, of which an important component is attendance. To earn all 7.5 points, you would be expected to attend virtually all classes and regularly answer questions, ask illuminating questions, offer good insights, etc. Excellent attendance without much talking is worth about 5 points. **Irregularities in attendance automatically reduce participation points to 3 or below.**

Class policies	
Make-up exams	Not given, except for absences caused by an unavoidable medical or family situation that I can verify (e.g. note from health-care provider).
Submitting graded work	Assignments and papers must be <i>submitted in class</i> , unless you make a prior arrangement with me.
Late work	Accepted, but with points deducted.
AU's Academic Integrity Code	In effect at all times! No plagiarism, no submitting work that is not your own, no 'collaboration' in exams, etc. Violations will be prosecuted!
Grades	<p>Grades reflect evaluation of course work as follows:</p> <ul style="list-style-type: none"> A Outstanding -- superlative work at all times A- Excellent -- consistently superlative work B+ Very good B Good B- Good, but with notable gaps in understanding C Satisfactory D Poor F Failing

Course outline and approximate schedule

Notes:

- Readings other than Mishkin are found in the "Course documents" area of the Blackboard site.
- All readings are required, but not all readings need to be read closely and completely. A good strategy would be to read a paper through once, focusing on: the key issue with which it is concerned, the key position(s) it takes, evidence used to support its arguments, and its policy implications. Then after the reading has been discussed in class, go back through and delve more deeply into sections that were emphasized.

1. Introduction -- Aug. 26-29

- Chap. 1: "Introduction"
- Articles from *The Economist*, "Monetary and financial conditions, Fall 2008" [US, EU, UK, emerging-market countries]

2. Money and monetary policy in the U.S. and Europe -- Aug. 29-Oct. 3

Mechanics of money supply and monetary policy

- Chap. 3: "What is money?"
- Readings in Blackboard on payments choice and debit cards
- Chap. 13: "Multiple deposit creation and the money supply process"
- Chap. 15: "Tools of monetary policy"

Monetary policy and the business cycle

- Chap. 22: "Aggregate supply and demand"

Debates about how best to make monetary policy

- Chap. 19: "Quantity theory of money" (foundation for monetarism), pp. 493-497
- Chap. 12: "Structure of central banks and the Federal Reserve System"
- Chap. 16: "What should central banks do? Monetary policy goals, strategies, and tactics"
- Hand-out comparing the Fed, European Central Bank, and Bank of England
- European Central Bank, "Why is price stability important for you?" (manga-style)
- Eric Swanson, "Would an Inflation Target Help Anchor U.S. Inflation Expectations?" (San Francisco Fed, Aug. 2006)

3. Money and monetary policy in the global economy -- Oct. 10-Nov. 4

Background

- Chap. 17: "Foreign exchange market"
- Chap. 18: "International financial system"

Monetary unions

- Alexandre Swoboda, "Robert Mundell and the Theoretical Foundation for the European Monetary Union" (IMF, Dec. 1999)
- Michael Klein, "European Monetary Union" (1998)
- International Monetary Fund, "Emerging Europe" (April 2007)

Appropriate monetary policy regimes for emerging market countries

- Collection of short articles, "Alternative monetary policy arrangements for emerging-market countries: Dollarization, currency boards, and monetary unions"
- *Optional*: International Monetary Fund, "Does inflation targeting work in emerging-market countries?" -- DOES NOT NEED TO BE READ unless you need or want further reading; will be summarized in class

"International currencies: The dollar vs. the euro?"

- Articles from *The Economist*, "The euro versus the dollar"
- International Monetary Fund, "Exchange rates and the adjustment of the current-account deficit," *World Economic Outlook*, April 2007.

4. Banking, finance and monetary policy -- Nov. 7-Dec. 5*Basics*

- Chap. 2: "Overview of the financial system" pp. 35-46.
- Chap. 8: "Economic analysis of financial structure" (information and incentive problems)

Banking and its regulation

- Chap. 9: "Banking and the management of financial institutions"
- Chap. 10: "Banking industry: Structure and competition"
- Chap. 11: "Economic Analysis of Banking Regulation"
- Deposit insurance and bank runs
- Articles from *The Economist*: "Global banking" and "Basel"

Mortgage finance and housing markets

- *Economist* articles on Freddie and Fannie
- Scott Frame and Lawrence White, "Fussing and Fuming over Fannie and Freddie: How Much Smoke, How Much Fire?"
- Randall Dodd, "Subprime: Tentacles of a Crisis"

Derivatives and hedge funds

- Chapter from alternative version of Mishkin (to be distributed in class)
- New York Fed article: "Hedge Funds, Financial Intermediation, and Systemic Risk" (2007)

Economist.com

Instructions for ordering *The Economist* at the academic price

- Go to <http://www.economistacademic.com>
- Along the left-hand bar, click on "Students"
- For this class, you need to order the 12-week subscription @ \$19.95 -- although you're welcome to take a longer subscription if you're interested
- Fill in the first few boxes as follows:

<u>Search for Faculty ID</u>	<input type="text" value="3480"/>	(optional)
Professor's Last Name	<input type="text" value="Starr"/>	(optional)
Professor's State	<input type="text" value="DC"/>	(optional)

- Then complete the information on yourself and your credit card.
- Click "Submit order"

The print issue will be delivered to the address you indicate. The subscription also gives you access to all the resources available at www.economist.com - including the current electronic edition, a searchable archive of articles dating back to 1997, and lots of "Backgrounder" pieces that give valuable up-to-date briefings on financial, economic and political issues.