

**ECON 331**  
**Money and Banking**  
**(Fall 2011)**

Franklin P. Perdue School of Business  
Salisbury University

**I. Instructor Information**

Instructor: Dr. Ying Wu, Professor of Economics

Office: Perdue Hall 203  
Office Hours: Mondays & Wednesdays: 1:30pm-2:30pm  
Phone: 410-543-6343  
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**II. Lecture**

Lecture Room: Perdue Hall 251  
Lecture Hours: Mondays and Wednesdays: 12:00pm-1:15pm

**III. Course Description**

The course focuses on monetary transmission mechanism and the conduct of monetary policy by investigating the relationship between real economic variables (real GDP, real rates of interest, unemployment rate, and real exchange rates) and nominal variables (the inflation rate, nominal interest rates, nominal exchange rates, and the supply of money) through financial sectors (financial markets and banks). Students in this course are expected to grasp basic theories of money, banking, and financial system, and be able to apply the theory to conduct independent analysis of the current issues such as the causes of current sluggish economic recovery, and challenges to the effectiveness of macroeconomic policies.

Specifically, this course provides students broad and in-depth coverage of updated issues of money, banking, and macroeconomy in three parts. The part of financial markets and banking describes functions of financial system and discusses the business of banking, with the focus on the determination of asset prices, interest rates, and exchange rates. The part of money and the economy presents basic theories of money and economic fluctuations through a short-run model based on an aggregate expenditure curve and a Phillips curve. The part of monetary policy surveys central banking and debates about monetary policy and institutions, and examines financial and banking crises.

#### **IV. Reading Materials**

##### ***Required Textbook***

Ball, Laurence M. (2009) *Money, Banking, and Financial Markets*, First Edition, New York: Worth Publishers

##### ***Recommended Supplementary Readings***

Koo, Richard C. (2008) *The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession*, Singapore: John Wiley & Sons (Asia) Pte. Ltd

Krugman, Paul (2009) *The Return of Depression Economics and the Crisis of 2008*, New York and London: W. W. Norton & Company.

Bernanke, Ben (2011) *The Near- and Longer-Term Prospects for the U.S. Economy*, the speech at Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, Wyoming, August 26, 2011

A special report: "Debt", *Economist*, June 26, 2010

##### ***Case Study Material***

"Don't you miss the Greenspan put?" *The Economist*, August 11, 2011

"Twisted thinking," *The Economist*, May 31, 2011

"Mother of all carry trades faces an inevitable bust," *The Financial Times*, November 9, 2009

"From asset to liability", *Economist*, May 16, 2009

"The Fed is responsible for the crash in the money multiplier ... and the failure of the economy to recover," March 16, 2010. Washington's Blog at <http://georgewashington2.blogspot.com/2010/03/m1-money-multiplier-still-crashing-each.html>

"The big sweat", *Economist*, June 13, 2009

"Running out of road," *Economist*, June 16, 2011

"Not quite so SAFE", *Economist*, April 25, 2009

## V. Useful Web Sources

<http://www.economist.com/>  
<http://research.stlouisfed.org/fred2/>  
<http://www.federalreserve.gov/>  
<http://www.ny.frb.org/>  
<http://www.frbsf.org/>  
<http://moneymorning.com/>  
<http://www.fdic.gov>  
<http://www.ffiec.gov/nic>

## VI. Course Evaluation:

Grades are based upon the following formula with respective components and their weights:

Homework:	5%
Group Case Presentation:	5%
Quizzes:	15%
Exam 1:	30%
Exam 2:	30%
Group Project & Oral Defense:	<u>15%</u>
	100%

*Homework* Each group must complete and turn in assigned homework (no late homework is accepted). The key to homework is released on the second day, and the homework is returned to students in the next class. The homework questions are short-answer problems and online and data questions listed at the end of chapters.

*Group Case Presentation* Each group of students needs to present, using PowerPoint slides, one case based on a pre-selected article from *The Economist* magazine.

*Quizzes* There is a short quiz with five multiple-choice questions for each topic at the beginning of the next class after completing lecture of the topic. The quiz must be finished within ten minutes.

*Exams* There are two closed-book exams to be taken in class, with exam one covering topics 1 through 5 and exam two covering topics 6 through 11. Each exam has two sections: one for multiple choice questions and one for short-answer problems. No make-up exams will be offered.

*Group Project & Oral Defense* Each group needs to complete a group project and present the project in the final phase of the course. The project theme is: “Understanding Challenges of Economic Recovery in the Post-Bubble Era”. The presentation will be made with PowerPoint slides in class. Each project should have one particular focus, based upon the following eight topics:

1. Why is the economic recovery this time so slow and vulnerable?
2. What are the potentials and constraints of quantitative easing (QE)?
3. Does deleveraging help or hurt the economy?
4. How can credit affect the business cycle via financial accelerator?
5. In what ways does globalization affect domestic economic recovery?
6. Does inflation or deflation tend to be the major threat?
7. How would next financial crisis look like?
8. How could policymakers balance the economy’s short-term needs with its long-term structural adjustment?

The written portion of the project accounts for 50% of the project grade (each team member’s share of duty needs to be clearly specified in the written project), and the oral-presentation portion (including Q&A) accounts for the other 50%. For the portion of oral presentation, both the instructor and the panel groups reward a maximum of 100 points to each project using the rubric attached in the next page, with the instructor’s score carrying 60% weight and the panel’s carrying 40% weight.

The arguments made in the project should be supported by pertinent data and at least preliminary statistical evidence (figures, graphs, pie-charts, etc.). All the references should be explicitly listed. The entire written project is limited within 15 double-spaced standardized pages, and it is to be emailed to instructor one week before its oral presentation. For the oral presentation, each group must complete a power-point presentation followed by questions and answers (Q&As).

<b>Instructor's Score Sheet</b> Instructions: For each of the five criteria below, give a score between 1-20 (1-4=poor, 5-8=fair, 9-12=good, 13-16=very good, 17-20=superior)		
<b>Criteria</b>	<b>Score 1-20 (no fractions)</b>	<b>Comments</b>
<b>A. Evidence of knowledge of money and banking and the current economic issues:</b> <ul style="list-style-type: none"> <li>• Presents accurate information</li> <li>• Combines appropriate theory with empirical evidence</li> </ul>		
<b>B. Responses to questions:</b> <ul style="list-style-type: none"> <li>• Demonstrates ability to defend positions challenged</li> <li>• Shows poise under pressure</li> <li>• Demonstrates good listening skills</li> </ul>		
<b>C. Presentation:</b> <ul style="list-style-type: none"> <li>• Well organized</li> <li>• Creative</li> <li>• Persuasive</li> <li>• Clear</li> <li>• Does not read from notes or script</li> </ul>		
<b>D. Quality of the research and analysis:</b> <ul style="list-style-type: none"> <li>• Uses a variety of sources</li> <li>• Selects important information</li> <li>• Draws logical conclusions</li> </ul>		
<b>E. Teamwork/Cooperation:</b> <ul style="list-style-type: none"> <li>• Evidence that all team members participated substantially</li> <li>• Evidence of shared responsibilities among team members</li> </ul>		

## **VII. Course Content and Tentative Schedule**

### **Part One Financial Markets and Banking**

#### **Topic 1 Asset Prices and Interest Rates**

- 1.1 Overview of the Financial System and Money (Chapters 1 & 2)
- 1.2 Classical Theory of Asset Prices
- 1.3 Asset-Price Fluctuations and Bubbles
- 1.4 Measuring Interest Rates and Asset Returns

Textbook Readings: Chapters 1 through 3

Case study: “Don’t you miss the Greenspan put?” *The Economist*, August 11, 2011

*CBS 60-minutes*: “House of Cards”

#### **Topic 2 Determination of Interest Rates**

- 2.1 The Loanable Funds Theory
- 2.2 The Liquidity Preference Theory
- 2.3 Term Structure of Interest Rates

Textbook Readings: Chapters 4

Case study: “Twisted thinking,” *The Economist*, May 31, 2011

*I.O.U.S.A.*: “Savings Deficit”

#### **Topic 3 Foreign Exchange Markets**

- 3.1 Long-Run Behavior of Exchange Rates
- 3.2 Short-Run Fluctuations in the Real Exchange Rates
- 3.3 Determination of Nominal Exchange Rates

Textbook Readings: Chapter 6

Case study: “Mother of all carry trades faces an inevitable bust,” *The Financial Times*, November 9, 2009

*I.O.U.S.A.*: “Trade Deficit”

**Topic 4      Business of Banking**

- 4.1    Bank Balance Sheets and Bank Profits
- 4.2    Liquidity Risk, Credit Risk, and Interest Rate Risk
- 4.3    Bank Runs

Textbook Readings: Chapters 9 and 10 (section 10.1)

Case study: “From asset to liability,” *The Economist*, May 16, 2009

**Part Two      Money and the Economy**

**Topic 5      Money Supply and Interest Rates**

- 5.1    The Fed and Monetary Base
- 5.2    Money Creation and Money Multiplier
- 5.3    Money Targeting versus Interest-Rate Targeting

Textbook Readings: Chapter 11

Case study: “The Fed is responsible for the crash in the money multiplier ... and the failure of the economy to recover,” Washington’s Blog, March 16, 2010.

**Exam One:                    October 12, 2011 (Wednesday)**

**Topic 6      Short-Run Economic Fluctuations**

- 6.1    Business Cycle and Aggregate Expenditure (AE)
- 6.2    Expected Inflation, Output, and Phillips Curve (PC)
- 6.3    AE-PC Model
- 6.4    Long-Run Monetary Neutrality

Textbook Readings: Chapter 12

*I.O.U.S.A.:* “Budget Deficit”

**Topic 7      Monetary Transmission Mechanism through Financial System**

- 7.1    Monetary Policy and the Term Structure
- 7.2    Financial System and Aggregate Expenditure
- 7.3    Monetary Transmission Mechanism and Policy Time Lags

Textbook Readings: Chapters 13

Case study: “The big sweat,” *Economist*, June 13, 2009

**Topic 8        Inflation and Deflation**

- 8.1    Money and Inflation in the Long Run
- 8.2    Costs of Inflation
- 8.3    Deflation and Liquidity Trap

Textbook Readings: Chapter 14

**Part Three    Monetary Policy**

**Topic 9        Policies for Economic Stability**

- 9.1    Taylor Rule
- 9.2    Interest-Rate Policy and Financial Events
- 9.3    Time Consistency and Inflation

Textbook Readings: Chapters 15 and 16 (section 16.1)

Case study: “Running out of road,” *Economist*, June 16, 2011

**Topic 10       Monetary Policy and Exchange Rates**

- 10.1 Exchange-Rate Policies
- 10.2 Fixed Exchange Rates

Textbook Readings: Chapter 17

Case study: “Not quite so SAFE,” *Economist*, April 25, 2009

**Topic 11       Financial Crisis**

- 11.1 The Mechanics of Financial Crisis
- 11.2 Policy Responses to Financial Crisis
- 11.3 Financial Crisis with Capital Flight

Textbook Readings: Chapter 18

***Project Presentation and Oral Defense:    December 5 (Monday) & December 7 (Wednesday), 2011***

**Exam Two:                    December 12, 2011 (Monday)**