

MONEY AND BANKING

INSTRUCTOR: Bryan P. Cutsinger

ECONOMICS 310-002

OFFICE LOCATION: James Buchanan Hall D121

Fall 2017

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Music Theater Building 1004

OFFICE HOURS: Every Tuesday, 2:00-4:00pm

TR: 9:00-10:15AM

This syllabus represents a contract between myself and the students. I will do my best to uphold the guidelines and schedule outlined below, and I expect the students to do the same. If necessary, however, I reserve the right to alter the syllabus.

COURSE DESCRIPTION

Rather than being concerned with a particular topic, or set of topics, economics is an approach to understanding human behavior and institutions. This way of thinking about social phenomena distinguishes economics from other social sciences. In this class, we will apply the economic way of thinking to understand the institutions of money and banking. This topic extends far beyond the scope implied by the name of this course. My own view of money and banking is that it is one of the important links between microeconomics and what is commonly referred to as macroeconomics. That is, by studying money and banking, we can better understand how the decisions of individuals and financial firms affect the economy as a whole, and consequently we can begin to build a better understanding of the world around us.

Despite the 2008 Housing and Global Financial Crisis happening nearly 10 years ago, the effects of these events, along with the policies intended to contend with them, continue to be relevant, particularly to those who study money and banking. Since the Great Depression, there has been no more exciting time to study money and banking than today.

The first half of this course will focus on the role of money, interest rates, and financial intermediation in the economy as well as the closely related topics of financial regulation and financial crises. The second half of the course will focus on monetary policy and the mechanisms through which it affects the economy. Upon successfully completing this course, students will be able to (1) explain the role and importance of money; (2) analyze how time and risk affect interest rates and how interest rates affect the behavior of firms and individuals; (3) describe the relationship between the demand and supply of money and how this relationship affects output and prices; (4) understand how the Federal Reserve conducts monetary policy; and (5) examine the various mechanisms through which monetary policy affects the economy.

REQUIRED MATERIALS

Mishkin, F. S. (2015). The Economics of Money, Banking and Financial Markets (11th edition). Boston: Pearson.

I have also assigned additional readings that are available online or through the GMU Library's e-journal finder.

COURSE POLICIES

Expectations for the course: I expect students to have read all assigned materials before coming to class. I also expect that all students have successfully completed the following prerequisites for this course prior to taking the class: ECON 103 and ECON 104. **Therefore, I assume that all**

students have a basic understanding of macro and microeconomic principles. If you're in need of a review of this material, there are resources available online (see Khan Academy or Marginal Revolution University).

Learning in a classroom environment requires collaboration between the teacher and the students. Certain behaviors are conducive to this collaboration, and others inhibit it. Because of this, **I expect that all students will treat one another with respect**, which includes abstaining from distracting behavior, e.g. side conversations and using electronic devices for unrelated activities.

Attendance Policy: Each student is responsible for what he or she learns. Attendance is a key to meeting course objectives and for students to adequately learn the presented material. As such, I expect students to attend all classes. **If a student needs to miss a class, it is the responsibility of that student to obtain all class notes and assignments.**

TENTATIVE SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS

WEEK	TOPICS/ASSIGNMENTS/EXAMS
Week 1 8/29, 8/31	<ul style="list-style-type: none"> • Topics: Why Study Money, Banking, and Financial Markets?; An Overview of the Financial System • Readings: Mishkin, Chs. 1 & 2
Week 2 9/5, 9/7	<ul style="list-style-type: none"> • Topics: What Is Money?; Understanding Interest Rates • Readings: Mishkin, Ch. 3 & 4; Alchian, Why Money (1977) • Assignment: Problem Set 1 Distributed 9/7
Week 3 9/12, 9/14	<ul style="list-style-type: none"> • Topics: The Behavior of Interest Rates; The Risk and Term Structure of Interest Rates • Readings: Mishkin, Chs. 5 & 6
Week 4 9/19, 9/21	<ul style="list-style-type: none"> • Topics: The Stock Market, Rational Expectations, and the Efficient Market Hypothesis; Banking and the Management of Financial Institutions • Readings: Mishkin, Ch. 7 & 9; Yeager, What Are Banks? (1978)
Week 5 9/26, 9/28	<ul style="list-style-type: none"> • Topics: Economic Analysis of Financial Regulation; Financial Crises • Readings: Mishkin, Chs. 10 & 12; Horwitz, Causes and Cures of the Great Recession (2012); Stigler, The Economic Theory of Regulation (1971); Yeager, A Cash-Balance Interpretation of Depression (1956) • Assignment: Problem Set 1 Due 9/28
Week 6 10/3, 10/5	<ul style="list-style-type: none"> • Midterm Review (10/3) • MIDTERM (10/5)
Week 7 No class on 10/10, 10/12	<ul style="list-style-type: none"> • Topics: Central Banks and the Federal Reserve System; The Money Supply Process • Readings: Mishkin, Chs. 13 & 14 • Assignment: Problem Set 2 Distributed 10/12
Week 8 10/17, 10/19	<ul style="list-style-type: none"> • Topics: The Tools of Monetary Policy; The Conduct of Monetary Policy

	<ul style="list-style-type: none"> Readings: Mishkin, Chs. 15 & 16; Friedman, The Role of Monetary Policy, (1968)
Week 9 10/24, 10/26	<ul style="list-style-type: none"> Topics: Quantity Theory, Inflation, and the Demand for Money Readings: Mishkin, Ch. 19
Week 10 10/31, 11/2	<ul style="list-style-type: none"> Topics: The IS Curve Readings: Mishkin, Ch. 20 Assignment: Problem Set 2 Due 11/2
Week 11 11/7, 11/9	<ul style="list-style-type: none"> Topics: The Monetary Policy and Aggregate Demand Curves Readings: Mishkin, Ch. 21
Week 12 11/14, No Class 11/16	<ul style="list-style-type: none"> Topics: Aggregate Demand and Supply Analysis Readings: Mishkin, Ch. 22 Assignment: Problem Set 3 Distributed 11/14
Week 13 11/21, No class on 11/23	<ul style="list-style-type: none"> Topics: Monetary Policy Theory Readings: Mishkin, Ch. 23
Week 14 11/28, 11/30	<ul style="list-style-type: none"> Topics: The Role of Expectations in Monetary Policy Readings: Mishkin, Ch. 24
Week 15 12/5, 12/7	<ul style="list-style-type: none"> Topics: Transmission Mechanisms of Monetary Policy Readings: Mishkin, Ch. 25 Final Review (12/7) Assignment: Problem Set 3 Due 12/5
12/14, 7:30-10:15am	FINAL EXAM

EVALUATION AND GRADING

Course Specific Grading: Final grades will be based on one (1) midterm exam during the semester, three (3) problem sets, and a comprehensive final exam. Specific requirements for these assignments will be discussed in class. Exams will cover material presented in the lectures as well as all the assigned readings.

The final grade is calculated as follows:

(1) Midterm Exam	30%
(3) Problem Sets (10% each)	30%
Final Exam	40%
	100%

There will be no make-up exams. If a student must miss an exam, he or she may replace the exam grade with the grade received on the final exam – hence the final exam will be worth 40% plus the value of the missed exam. If, for example, a student misses the midterm exam, then the final exam will be worth 70% of that student's grade.

There will be no make-up assignments. Please note that homework assignments may be done in advance of the due date so students should be able to complete work in the event a student must miss class. **All assignments are due at the beginning of class.** I require a hard copy of all

assignments. **Homework may not be submitted over email.** Collaboration on homework assignments is allowed and encouraged.

ADDITIONAL INFORMATION

Honor Code: The George Mason University Honor Code requires all members of this community to maintain the highest standards of academic honesty and integrity. Cheating, plagiarism, lying, and stealing are all prohibited. All violations of the Honor Code will be reported to the Honor Committee.

Disability Resource Center: If you are a student with a disability and you need academic accommodations, please see me as early as possible, and contact the Disability Resource Center (DRC) at 703-993-2474. All academic accommodations must be arranged through that office.

Communication, and Class Updates: Occasionally, I may need to update students on class activities and assignments. I will be emailing students at their GMU email address. Students are responsible for checking this email regularly.

REFERENCES

- Alchian, A. A. (1977). Why Money? *Journal of Money, Credit and Banking*, 9(1), 133–140.
- Friedman, M. (1968). The Role of Monetary Policy. *The American Economic Review*, 58(1), 1–17.
- Horwitz, S. (2012). Causes and Cures of the Great Recession. *Economic Affairs*, 32(3), 65–69.
- Stigler, G. J. (1971). The Theory of Economic Regulation. *The Bell Journal of Economics and Management Science*, 2(1), 3–21.
- Yeager, L. B. (1956). A Cash-Balance Interpretation of Depression. *Southern Economic Journal*, 22(4), 438–447.
- Yeager, L. B. (1978). What are banks? *Atlantic Economic Journal*, 6(4), 1–14.