

# Econ 310 – Money and Banking

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*Location:* Robinson B 220, Tuesdays, Thursdays: 12:00 – 1:15 PM

*Office hours:* Tuesdays 1:30 – 3:00 PM or by appointment,  
Economics Department study area on the 1<sup>st</sup> floor (second story) in Buchanan Hall (formerly  
Mason Hall)

## Motivation

Often it seems to be the case that when we go about studying a subject we are ultimately looking for answers. However, just as often does it seem to be the case in the study of economics that we generate more questions than we answer. As such it may be beneficial to see economics as a discipline that helps nurture our more inquisitive sides. With that in mind, consider the following:

- It has been 10 years since the Great Recession. The housing bubble of the early 2000s had finally burst becoming a main cause of the resulting financial crisis. But why? What actually is a financial crisis? Will something similar ever happen again?
- More recently there has been a lot of buzz surrounding the policy of the United States central bank, The Federal Reserve. After almost 10 years of near zero interest rates, Fed Chair Janet Yellen has announced a change in fed policy to begin raising interest rates. But how? To what end? And why would it matter to both domestic consumers and people all over the planet?
- About a year ago the citizens of the UK voted to leave the European Union. Subsequently, the value of the British pound dropped relative to both the U.S. dollar and the Euro. But why? How does that affect British consumer? What about the British industries?

The goal of this class is to provide the tools necessary to understand the preceding issues and to give you an appreciation of the problems solved by the institutions of money, banking, and financial markets. By the end of the class, you should be able to understand current monetary events and evaluate policy proposals through the lens of economics.

## Prerequisites

ECON 103 and ECON 104 are prerequisites for this class. You are expected to be familiar with some of the basic principles of economics (e.g. thinking on the margin, subjectivity, supply and demand, etc.). Also, I expect that you are fluent in college level algebra. I will review what I think to be the most important concepts at the beginning of the semester, so don't worry too much.

## Required Text Book

Hubbard, G. P., & O'Brien, A. P. (2014). *Money, banking, and the financial system*. Pearson Higher Ed.

**We Will Be Using the 2<sup>nd</sup> Edition.** It is available in the bookstore. I may assign additional readings to help emphasize the topics covered in class each week but mainly we will be working out of this text.

## Tips for Success

- Take notes. Not just in class, but also from your readings – They will help when you are completing your homework and when you are studying for the midterm and final.
- This class is consolidated so there is a lot to cover in a short time period. To that end, there will be **two problem sets** each week. I will assign homework on Tuesday (due on the following Saturday) and on Saturday (due the following Tuesday). These are to be turned in before the end of class. I will accept homework up to **2 days** late by email but you will lose points for each day. So be sure to keep up with the homework.
- Please participate when you can. If something is unclear to you, ask me to clarify. Not only will doing so raise a question that others in class might also have, but it will help your grade as participation is a part of the total.
- There will be a couple short writing assignments for this class. There are 3 purposes behind them. First, writing can help you think more deeply about the topics discussed in class. Second, writing will provide me with a better understanding of how well I am conveying the ideas. Third, it will give you an idea of the kind of questions I will ask on the midterm and final.

## Grading

<b>Homework Assignments</b>	20%
<b>Class Participation</b>	5%
<b>Papers</b>	20%
<b>Midterm</b>	25%
<b>Final</b>	30%

## Papers

### Short Writing Assignments

There will be 2-3 writing short writing assignments (1-1½pg, double spaced) prior to the midterm. I will tell you what you will be writing on as we cover the topics. The questions will address your general understanding of what we are discussing in class. Writing about these topics will help you think more thoroughly about them and will make you aware of what you may need to spend more time studying. Further, the questions should give you an idea of the kinds of questions I will be asking on the midterm and final.

### Long Writing Assignment

This paper is to be 2-5 pages in length, double spaced. I want you to choose a chapter in a book about the history of money and banking and summarize it. Also, I want you to relate the chapter to the topics we will discuss in class. The books I would like you to choose from are:

- *Banks and Politics in America: From the Revolution to the Civil War* by Hammond Bray
- *A Program for Monetary Stability* by Milton Friedman
- *A Monetary History of the United States, 1867 - 1960* by Milton Friedman and Anna J. Schwartz
- *The Rationale of Central Banking and the Free Banking Alternative* by Vera C. Smith

The first two books are available free online (check the GMU Library Data base or JStor) while the last two would have to be purchased. **I do not require that you purchase any book other than the text we will be using in class.** If you are interested in these topics then by all means, the last two books are worthwhile to read. And of course if you can think of some other aspect or topic you would like to write about that is not covered in these books check with me and I will let you know if it is acceptable.

You can start as soon as possible – and I urge you to do so. **YOU NEED TO REQUEST A CHAPTER.** To do so send me an email or tell me before/after class and I will OK it for you. I do not want more than 2 or 3 people writing about the same one. **It will be due on the last day of class (December 9<sup>th</sup>).**

## Schedule

This schedule is subject to change I may add/subtract readings and topics based on our time constraints.

- I. Intro to Financial Intermediaries; The Origin and Functions of Money; Spontaneous Emergence vs. Chartalism;
  - a. Chapter 2
  - b. Where does money come from? [Part 1](#) and [Part 2](#)
  - c. Supplemental Reading: Menger, Carl : [On the Origin of Money](#)
  - d. Supplemental Video(s): [Money](#); [Quantity Theory of Money](#);
- II. Interest Rates and How they are Determined
  - a. Chapters 3, 4, & 5
  - b. Supplemental Video(s): [Bond Market](#);
- III. Risk and Financial Markets
  - a. Chapter 6
  - b. Supplemental Reading: [Is the Stock Market Efficient?](#)
  - c. Supplemental Video(s): [Stock Market](#);
- IV. Transaction Costs and Asymmetric Information
  - a. Chapters 9 & 11
  - b. Supplemental Readings: [Three-Legged Stool of Health Reform](#)
- V. Economics of Banking and Central Banks
  - a. Chapters 10, 13, 14
  - b. Supplemental Reading: Yeager, Leland: [What are Banks?](#)
  - c. Supplemental Reading: [A Program for Monetary Reform](#) (1939)
  - d. Supplemental Video(s): [Banking](#); [Monetary Policy](#); [Philips Curve](#); [Fractional Reserve Banking](#)
- VI. Foreign Exchange & International Monetary Policy
  - a. Chapters 8 & 16

- b. [Brexit and Forex](#) - Investopedia
  - c. Supplemental Video(s): [Exchange Rates](#);
- VII. Monetary Policy, the Financial System, and the Macroeconomy
  - a. Chapters 15, 17 & 18
  - b. Supplemental Video(s): [AS & AD](#); [Sticky Wages](#); [Short Run AS](#); [Impossible Trinity](#);
- VIII. Financial Crises
  - a. Chapter 12 & 16
  - b. Supplemental Reading: Horwitz, Steven: [Causes and Cures of the Great Recession](#); Kaminsky et al: [Twin Crises](#)
  - c. Supplemental Video(s): [2008 Financial Crisis](#); [Global Depression of the 1930s](#);

## Important Dates

- **September 4<sup>th</sup>**: Labor day, university closed
- **September 29<sup>th</sup>**: Final Drop Deadline
- **October 9<sup>th</sup>**: Columbus Day recess (Tuesday classes do not meet)
- **November 22-26<sup>th</sup>**: Thanksgiving recess
- **December 9<sup>th</sup>**: Last day of class
- **December 11<sup>th</sup>-12<sup>th</sup>**: Reading days
- **December 13<sup>th</sup>-20<sup>th</sup>**: Exam Period

## Academic Integrity

George Mason University has an honor code, which requires all members of this community to maintain the highest standards of academic honesty and integrity. Cheating and plagiarism, including the unattributed copying of material from existing sources, are prohibited, and will be reported to the Honor Committee. See [honorcode.gmu.edu](http://honorcode.gmu.edu) for more information.

## Additional Information

**Disability Notice:** If you are a student with a disability and you need academic accommodations, please see me and contact the Office of Disability Services at (703) 993-2474 or [ods.gmu.edu](http://ods.gmu.edu) as soon as possible. All academic accommodations must be arranged through that office.

**Enrollment:** Students are responsible for verifying their enrollment in this class. After the last day to drop a class, withdrawing from this class requires the approval of the dean and is allowed only for nonacademic reasons. Undergraduate students may choose to exercise a selective withdrawal. See the schedule of classes for selective withdrawal procedures.

### *Other Useful Campus Resources:*

- Writing center – A114 Robinson Hall – (703) 993-1200 – [writingcenter.gmu.edu](http://writingcenter.gmu.edu)
- University Libraries – [library.gmu.edu/mudge/IM/IMRef.html](http://library.gmu.edu/mudge/IM/IMRef.html)
- Counseling and Psychological Services – (703) 993-2380 – [caps.gmu.edu](http://caps.gmu.edu)

*University Policies:* The university catalog ([catalog.gmu.edu](http://catalog.gmu.edu)) is the central resource for university policies affecting student, faculty, and staff conduct in university academic affairs. Other policies are available at [universitypolicy.gmu.edu](http://universitypolicy.gmu.edu). All members of the university community are responsible for knowing and following established policies.