

## Money & Banking

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ECON 310.002, Fall 2018  
Tuesdays & Thursdays, 9:00am to 10:15am  
B.105 Robinson Hall

**Instructor:** Jay Cochran, III PhD  
**Office:** D151 Mason Hall  
**Office Hrs:** Tues/Thurs 8am to 9am,  
Tues noon to 1pm

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**Phone:** (email is best)

### Course Objective

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To develop an understanding of the financial system including the behavior of its institutions, markets, and prices and to understand monetary policy and financial regulations.

### Textbook

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Dean Croushore (2015), *M&B<sup>3</sup>*, South-Western/Cengage Learning. ISBN-13: 978-1285-16796-1 A study guide is available, but NOT required. The second edition is also acceptable, ISBN-13 978-1-111-82336-8.

### Course Prerequisites

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ECON 103 (Microeconomic Principles) and ECON 104 (Macroeconomic Principles). Do not enroll in this course without having successfully completed its prerequisites.

### Grading

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Grades are based on 1 homework assignment, a paper, two in-term exams, and a final exam (given during the time prescribed in the *Schedule of Classes*). Weights for determining your final grade are:

(1) Homework Assignment	5%
(1) Bank Analysis Paper	15%
(2) In-Term Exams (20% each)	40%
(1) Final Exam (comprehensive)	40%

The Bank Analysis Paper requires you to analyze a bank (that I'll assign to you) based on several measures of profitability and risk management. You'll then compare its performance to the overall US banking industry in order to evaluate and draw conclusions about your bank's relative safety and soundness.

Assignments are due at the beginning of class on the due date. Late papers and homework assessed one letter grade penalty per calendar day (or fraction) late. If I have to print out your assignment(s), you are imposing a cost, so there is a 10% penalty when you choose to impose this cost. There are no extra credit assignments.

### Exams

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Exams are typically a combination of true/false, multiple choice, and problems/short-answer and are based on the assigned readings and class lectures. The final exam is comprehensive, covering all of the material for the entire semester. In-term exams are not cumulative. You will need a Scantron answer sheet for each exam as well as a calculator and pencil. There are no make up exams.

### Disability Resource Center

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If you are a student with a disability and you need academic accommodations, please contact the Office of Disability Services at 703.993.2474 or <http://ods.gmu.edu>. All such academic accommodations must be arranged in advance through that office.

### Attendance

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Attendance is not mandatory; however, as an adult, you know you'll do better if you attend class regularly. In addition, some material in class is not found in the textbook or is treated differently. For more tips on semester success, click the "Tips" link on the course page. Electronic recording of class lectures is NOT permitted.

### Honor Code

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Students are expected to know and to follow the George Mason University Honor Code.

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### Course Outline\*

2018 Dates*	Topics	Chapters
<b>Part 1: <u>Money, Credit, Trade, and Interest Rates</u></b>		
8.28	Introduction	1
8.30	System Overview	2
9.4	Goods, Money, & Domestic Exchange [HW—Posted] Last Day to Add	3**
9.6—9.13	The Mathematics of Finance	4
9.18	Determination and Structure of Interest Rates [Homework Due: 9.18]	5
9.20	Real Interest Rates	6
<b>9.25</b>	<b>1<sup>st</sup> IN-TERM EXAM</b> (Last Day to Drop: 9.30.2016)	
<b>Part 2: <u>Commercial Banking and Finance</u></b>		
9.27—10.4	The Business of Commercial Banking	8
<b>10.9</b>	<b>Tuesday Classes do not meet</b>	
10.11—10.16	US Banking Historical Survey	WPS <sup>§</sup>
10.18	Regulation of Banking	9
10.23	Stock Market and Derivatives	7
10.25—10.30	Foreign Exchange [Bank Analysis Papers Due, 10.25]	14
<b>11.1</b>	<b>2<sup>nd</sup> IN-TERM EXAM</b>	
<b>Part 3: <u>Central Banking, Government Policy, and Money (again)</u></b>		
11.6—11.8	The Federal Reserve, Independence & Monetary Policy Rules	15 & 17 <sup>§§</sup>
11.13—11.20	The Money Supply Process	16
<b>11.21—11.25</b>	<b>Thanksgiving Break</b>	
11.27—11.29	Money Demand	11
12.4—12.6	Inflation, Deflation, and Monetary Policy	WPS
<b>12.13</b>	<b>FINAL EXAM: 7:30am to 10:15pm &gt;&gt;&gt;&gt;NOTE the Earlier Start Time!!!</b>	

\* Approximate timeline only; subject to change due to weather and/or other circumstances.

\*\*Supplemental reading: Antal Fekete's "Ayn Rand's Hymn to Money,"

<http://www.professorfekete.com/articles/AEFMonEcon101Lecture1.pdf> (extra credit questions on first exam).

<sup>§</sup> WPS = Web-posted slide outlines. Supplemental reading (for extra credit on second and final exams): [Rockoff \(1990\)](#), "The 'Wizard of Oz' as a Monetary Allegory," *Journal of Political Economy* 98 (4), pp. 739-760. [Article accessible from JSTOR through Fenwick Library using your GMU ID.]

<sup>§§</sup> Read also Fed Chair Bernanke's 2002 speech, "Making Sure 'IT' Doesn't Happen Here," linked at the Federal Reserve's website, <http://www.federalreserve.gov/boarddocs/speeches/2002/20021121/default.htm>

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**Assignment:** Bank Analysis Paper

**Due Date:** **10.25.16 (beginning of class)** There is a one letter grade deduction for each calendar day late. Electronic submissions docked one letter grade for imposing printing costs on your instructor.

**Purpose:** To develop an appreciation for the importance of bank safety and soundness and how to measure and evaluate a bank's safety and soundness from a depositor's perspective.

**Method:** The Bank Analysis Paper requires you to analyze a bank (that I'll assign to you) based on several measures of profitability and risk management. You'll then compare its performance to its peers in the US banking industry in order to evaluate and draw conclusions about your bank's safety and soundness. I'll provide industry/peer performance data to use for comparing your bank. You should discuss what each measure means (i.e., why it's important), and how your bank performed relative to its peers.

Data for this assignment are available from the FDIC's "Statistics on Depository Institutions" (SDI) Database. Go to: <https://www5.fdic.gov/sdi/main.asp?formname=compare> to access the FDIC SDI database. You will need your institution's FDIC Certificate number to do so. That will be provided with you bank assignment, which will be posted after the first exam.

Your analysis will be based on the latest (annualized half-yearly) FDIC data. By default, the FDIC data tables post the latest data; so simply use the default data and dates. (If those data are based on second quarter results—fall semester classes—income statement data will need to be annualized—i.e., doubled.)

The Analytical measures are grouped into (a) Profitability and (b) Risk Management categories. You will make 7 calculations for you bank that you then compare to the industry averages. Most importantly, you must evaluate your bank as compared to the industry as a whole (i.e., is it performing better or worse on each measure?).

**(a) Profitability:**

- (1) Basic Spread (Difference between Average Loan Interest Rates and Average Deposit Interest Rates)
- (2) Return on Assets (Net Income over Total Assets)
- (3) Return on Capital (Net Income over Capital)

**(b) Risk Management:**

- (4) Capitalization Ratio (Capital to Total Assets)
- (5) Gap Analysis—(sensitivity of profits to changes in interest rates)
- (6) Liquidity Management (Reserves to Total Deposits)
- (7) Credit Loss Experience (Charge-Offs as a percentage of Capital)

**Conclusion:** Finally, you must draw a conclusion about your bank's safety and soundness. It may be helpful to think about this part as offering advice to your parents or friends about the wisdom of depositing funds into this bank.

**Length:** Your paper should be about 1,250 words long, or about 5 double-spaced pages (not including tables, graphs, or footnotes). Your paper **must** be typed and double-spaced. Although not required, it is also a good idea to include an "Analysis" page similar to the one I will post, so that I can see the calculations you made and award part credit in the event of a computational or other error. If I cannot determine what you did, I cannot award part credit.

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### Bank Analysis Paper Grading Criteria

Assignment Total Points: 15

This reference sheet describes the criteria I apply when grading the bank analysis papers. Recall from the assignment's description sheet (above), that you are to analyze a specific bank, using (7) criteria of safety and soundness, and then you must draw a conclusion whether your bank is in fact sound or not. Some of the banks in this assignment are unsound. Your job is to figure out whether your bank is one of them.

**A. Were the Instructions followed?** (3 points) The ability to read, understand, and follow instructions is a useful lifelong skill that, sadly, many adults never master.

1. **7 Factors**—was the analysis conducted using (at least) the 7 points of safety and soundness described on the syllabus attachment?
2. **Conclusion**—did the paper draw an explicit conclusion about the bank's safety and soundness?
3. **Length**—did the paper adhere to the length and formatting requirements?

**B. Analytical Quality** (10 points) This is central point of the exercise. Can the student apply simple analytical tools to a bank and then draw a conclusion about its safety and soundness?

1. **Accuracy**—are the analytical results calculated from the 7 points of analysis correct?
2. **Industry (relative) Comparison**—is the performance of the bank compared to the overall industry (i.e., is there a basis from drawing any conclusion about the analytical results), and are the conclusions drawn about the bank's relative performance correct?
3. **Conclusion**—is the paper's conclusion about the bank's safety and soundness justified based on the analysis provided in the paper?

**C. Style** (2 points) Following instructions and sound analysis tend to get lost if one's ideas are presented poorly or incoherently.

1. **Grammar & Style**—were there just a few grammatical errors (spelling, diction, s/v agreement, sentence structure, etc.) and was the paper's style engaging? (i.e., does the reader want to read more or just be done with it)?
2. **Coherence**—is the paper coherently written (i.e., does the prose follow a logical chain of progression and can the reader follow the argument clearly and easily)?

*You'll have plenty of time to complete the paper after we cover the material in class, but a word to the wise: do not put this assignment off until the last minute. It is not especially difficult, but it will take time to do the analytical job well. Late submissions docked one letter grade for each calendar day (or fraction) late. Computer problems, website issues, paper-hungry dogs, broken printers, and so forth are reasons but not valid excuses for late submissions. Lastly, if I have to print out your paper, you are imposing a cost, so there is a 10% penalty should you choose to impose this cost.*