
Money & Banking

ECON 310.004, Spring 2020
Tuesdays & Thursdays, Noon to 1:15pm
B111 Robinson Hall

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Office Hours: Tues/Thurs 10:30am to 11:45am **Phone:** (email is best)

Course Objective

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

Dean Croushore (2015), M&B³, South-Western/Cengage Learning. ISBN-13: 978-1-285-16796-1 A study guide is available, but NOT required. The second edition is also acceptable, ISBN-13 978-1-111-82336-8. We will NOT be using the CourseMate companion software that accompanies some versions of the text; so do not buy/rent those more expensive versions that include the software.

Course Prerequisites

ECON 103 (Microeconomic Principles) and ECON 104 (Macroeconomic Principles) are recommended prerequisites. Students are strongly discouraged from enrolling in this course without successfully completing its prerequisites.

Grading

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 on me, so there is a 10% penalty should you elect to impose this cost. There are no extra credit assignments.

Exams

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; the final exam is, however. 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

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

Attendance

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

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

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Course Outline*

| 2020 Dates* | Topics | Chapters |
|--|---|-----------------------|
| Part 1: Money, Credit, Trade, and Interest Rates | | |
| 1.21 | Introduction & Welcome | 1 |
| 1.23 | System Overview | 2 |
| 1.28 | Goods, Money, & Domestic Exchange Last Day to Add | 3 |
| 1.30—2.6 | The Mathematics of Finance | 4 |
| 2.11—2.13 | Nominal Interest Rates [Homework Due, 2.13] Last Drop Day: 2.11 | 5 |
| 2.18 | Real Interest Rates | 6 |
| 2.20 | 1st IN-TERM EXAM | |
| Part 2: Commercial Banking and Finance | | |
| 2.25—3.5 | The Business of Commercial Banking & Survey of US Banking History | 8 |
| 3.9—3.15 | SPRING BREAK | |
| 3.17 | Survey of US Banking History (continued) | WPS [§] |
| 3.19 | Banking Regulation | 9 |
| 3.24 | Stock Market and Derivatives | 7 |
| 3.26—3.31 | Foreign Exchange [Bank Analysis Papers Due, 3.26] | 14 |
| 4.2 | 2nd IN-TERM EXAM | |
| Part 3: Central Banking, Government Policy, and Money (again) | | |
| 4.7—4.14 | The Federal Reserve, Independence & Monetary Policy Rules | 15 & 17 ^{§§} |
| 4.16—4.23 | Money Supply & Money Demand | 16 & 11 |
| 4.28—4.30 | Inflation, Deflation, and Monetary Policy | WPS |
| 5.7 | FINAL EXAM (Comprehensive): 10:30am to 1:15pm >>>>NOTE Earlier Start Time!!!<<<< | |

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

[§] WPS = Web-posted slide outlines. Supplemental reading: [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.]

^{§§} 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: **3.26.2020 (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 will 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. Year-to-date balance sheet data need not be adjusted.)

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 your particular bank.

Length: Your paper should be about 1,250 words long, or about 5 double-spaced typed 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 data transcription 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 use to grade 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 7 analytical measures correct and accurately described?
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 one or two 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, etc. are reasons but not valid excuses for late submissions.

Lastly, this is not a research paper and I already know the data source for the analysis. Therefore, you do not need a "References" page or a citation of the data. However, if you choose to cite other sources such as annual reports, SEC filings, newspaper or journal articles, etc., they should be cited according to generally accepted citation practices (e.g., APA, MLA, Chicago, etc.). Such citations must simply indicate that the work being cited is not your own. Under no circumstances should you cite, use or otherwise rely upon Wikipedia as source material in your paper. Doing so will cost you severely in the determination of your paper's grade.