Economics 160: Money and Banking

Syllabus

Instructor: Ioannis Kospentaris

Summer 2016 Session A

Logistics

- **Lectures:** Tuesdays and Thursdays from 8.30 am to 10.35 am in Bunche 2209A

- **Instructor’s e-mail:** john25aris@gmail.com

- **Office hours:** Tuesdays and Thursdays from 11 am to 12 pm in the Alper room (Bunche Hall, second floor, room 2265)

- **Class website:** https://moodle2.sscnet.ucla.edu/course/view/161A-ECON160-1. I am going to post practice problems in this website; please check it often.

- **Textbook:** Frederic Mishkin, “The Economics of Money, Banking and Financial Markets”, 11th edition. I strongly recommend to get a copy of this book; I am going to follow it closely for my lectures and assign practice problems from it. Older editions should be fine but please make sure that you figure out what are the relevant chapters/problems assigned!

- **Prerequisites:** Economics 1, 2, 11, 102: standard supply and demand analysis; principles of Macroeconomics; theory of economic decision making; standard Macroeconomic models. This material is necessary to understand what we will be doing; if you have not taken these classes, please talk to me.

- **Requirements/Grading:** There will be a midterm exam on Tuesday, July 12th and a final exam on Thursday, July 28th; both of them are closed-book, in-class exams. The final is NOT cumulative; that is, the material covered in the midterm is not going to be tested on the final. Your grade for the class is going to be determined as follows:
Class Grade = 50% \times \text{Midterm} + 50\% \times \text{Final}

or

Class Grade = 30\% \times \text{Midterm} + 70\% \times \text{Final}

whichever is higher. Also, I might give a bonus up to 5 points based on active class participation; that is, people who contribute often to the class discussion may earn up to 5 extra points.

If a student misses the midterm because of a valid medical reason (for which documentation will be provided), his/her grade is going to be solely based on the final. A student who misses the midterm without a valid medical excuse or without receiving prior permission will receive a zero.

The problem sets will not be graded but are essential for doing well in the class; please work on them!

- **Disabled students**: Any student with a preexisting illness or condition who requests special arrangements must (a) qualify under OSD rules for such special arrangements and (b) must take the exam with OSD. Any such arrangements with OSD must be made during the first week of classes. The instructor must be informed of any such arrangement in the first week of classes. For additional information and the qualification conditions of the Office of Student Disabilities (OSD), please visit their website at https://www.osd.ucla.edu/. All other students must take the exams at the scheduled time under the same time constraints. It is the responsibility of all students who request special arrangements with OSD to be familiar with all of their rules as well as the rules of this class.

- **Academic dishonesty**: Any cases of cheating will be reported to the Office of the Dean of Students. For more details please refer to the Office of the Dean of Students website at http://www.deanofstudents.ucla.edu/Student-Conduct.

**Course Description**

This is a course on Monetary Theory (which is a special field of Macroeconomics) and Monetary Policy (which is a special field of Economic Policy). The questions we will try to answer include:

- What is the role of money in the economy?
- What is the role of the banking system in the economy?
- What is the role of the FED in the American economy?
- Why do individuals use money?
• How does the FED provide the necessary quantity of money to the economy?

To answer these questions we will use basic macroeconomic tools: graphs, equations, mathematical models (IS-LM, AS-AD models; the Phillips curve). We will be building on the models you learned in Econ 102 (or in any other Intermediate Macroeconomics course you have taken). The goal of the class is to be able to understand real-world phenomena (like the functions of money and banks in the economy or the recent financial crisis of 2007) by using the tools of Monetary theory.

The course consists of four major parts: introduction, money supply, money demand and monetary policy. A rough schedule for the class follows:

• Introduction

  1. Lecture 1: Introduction to Monetary Theory; Banking and Financial Markets; Motivation for the course; What is money; What is an economic model (Mishkin, chapters 1-3).
  2. Lecture 2: Interest rates; Present value; Returns; Bond market; Money market (Mishkin, chapters 4-5).

• Money Supply

  1. Lecture 3: Commercial banks; the FED; How does the FED work (Mishkin, chapter 13).
  2. Lecture 4: Money supply; factors that determine money supply; Money multiplier (Mishkin, chapter 14).
  3. Lecture 5: Monetary policy; How does the FED implement monetary policy (Mishkin, chapter 15).
  4. Lecture 6: Strategies and tactics for monetary policy; Review for the midterm (Mishkin, chapter 16).

• Lecture 7: Midterm Exam

• Money Demand

  1. Lecture 8: Demand for money; Keynes’ theory of money demand; Friedman’s theory of money demand; Introduction to IS-LM analysis (Mishkin, chapters 19-20).

• Monetary Policy

  2. Lecture 10: AS-AS analysis; Money and Inflation; Rational Expectations- if time permits (Mishkin, chapter 22 & 24-25).
• **Lecture 11**: Screening: “Inside Job” by Charles Ferguson. See http://www.sonyclassics.com/insidejob/. This documentary captures the gist of what happened before and during the financial crisis of 2007. Prerequisite: read Mishkin’s chapter 12

• **Lecture 12**: Final Exam

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**References**


• Wendy Carlin and David Soskice, “Macroeconomics: Imperfections, Institutions and Policies” (this is a great book on Macroeconomics; its level is slightly higher than the level in our course. I recommend it as a reference though, especially if you are thinking about taking more advanced economic classes, like our Econ 164 class).

• Realistic accounts of banking and financial sectors:
  - Marcia Stigum and Anthony Crescenzi, “Stigum’s Money Market”
  - Anthony Saunders and Marcia Millon Cornett, “Financial Institutions Management: A Risk Management Approach”

• Historical accounts of financial crises:
  - Carmen Reinhart and Kenneth Rogoff, “This Time Is Different: Eight Centuries of Financial Folly”
  - Martin Wolf, “The Shifts and the Shocks: What We’ve Learned- and Have Still to Learn- from the Financial Crisis”

• Carl Simon and Lawrence Blume, “Mathematics for Economists” (the standard reference book for Math used by economists).

• Carl Walsh, “Monetary Theory and Policy” (this is a graduate textbook on Monetary theory; I recommend using it if you are considering graduate studies in Economics or Finance).

• Gregory Mankiw, “Macroeconomics” (this is one of the best Macro textbooks; its level, however, is lower than the level in our course. If you want to review some of the material I will build upon, this is the place to start).
• Robert Heilbroner, “The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers” (summer reading: if you want to read only one book about Economics in your whole life, it should be this one; it is absolutely fascinating).

• Interesting Econ Podcasts: http://freakonomics.com/radio/freakonomics-radio-podcast-archive/
  http://www.econtalk.org/
  In these podcasts you can listen to clever people using the tools we will learn in this class to analyze real-world phenomena; some of the talks are really awesome and you can see why we spend so much time to learn all that theory: it helps us understand the real world.