



Economics 360: Money and Banking
Brenden Mason, PhD
Fall 2018: MWF 1:20-2:30pm
Naperville, IL

Office and Contact Info

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Office Hours

MWF 11-1, 3:00pm-5pm, and by appointment.

Course Prerequisites

Econ 250: Microeconomic Principles

& Econ 252: Macroeconomic Principles

Course Description (Course Catalog)

An examination of the function of money, credit, and financial institutions in the U.S. economy, and an analysis of Federal Reserve policy and its impact on the macroeconomy.

Books: *M&B 3 (Money and Banking, 3rd Ed.)*, by Dean Croushore, Cengage, 2015 (**required**); *Getting Off Track* by John B. Taylor, Hoover Institution Press, 2009 (**required**)

Introduction and Course Overview: The focus of this course is monetary policy. After covering a few key variables and the relationships between them, we turn to analyzing monetary policy. The course culminates in a debate about the cause of the 2008 Financial Crisis. In addition to the crisis, there are several other recurring themes of the course. We will see how monetary policy is conducted in other countries, e.g., China. We will also highlight the importance of market expectations. To solidify your understanding, you will have an Excel-based data analysis assignment, as well as several homework assignments that require the use of Excel and the Bloomberg Terminal.

Course Objectives: By the end of the course, students should be able to do the following:

- Speak intelligently about the 2008 Financial Crisis and relevant economic indicators
- Understand the historical and contemporary tactical debates surrounding monetary policy
- Acquire/boost data analysis skills through the use of Excel and the Bloomberg Terminal

Prerequisites: To implement the course objectives, I build upon your previous requisite coursework. From Macroeconomic Principles (ECN 252) you should know the sections on GDP, unemployment, and monetary policy. From College Algebra (MTH 121)—a prerequisite to ECN 252—you should know graphs, functions, logarithms, exponents, symbols (e.g., summations), and how to solve a system of equations (e.g., two equations, two unknowns). There is nothing specific that you need to recall from Microeconomics *per se*. However, you should be comfortable with the general vocabulary, e.g., ‘elasticity’.

Grade Allotment

Homework	30%
Midterm Exam	25%
Data Analysis Assignment	5%
Bloomberg Assignments	5%
Final Exam	35%

Homework: These assignments will give you practice with the topic at hand. These assignments will be assigned once we cover the relevant material in class. These assignments will come from the exercises at the end of the textbook chapter and/or the assigned readings.

Midterm Exam: There will be one midterm exam in this course. The midterm exam will cover the first five weeks of the course (see the tentative outline below).

Data Analysis Assignment (Excel): The use of Excel will solidify your understanding of the topic at hand, as well as illustrate how the topics of Money & Banking manifest in spreadsheet form. Excel is the ‘operating system of the business world’. Accordingly, knowledge of Excel will make you more competitive in the labor market upon graduation.

Bloomberg: Throughout the semester you will have several assignments that will require the use of a Bloomberg Terminal (located in the Bloomberg Lab on campus).

Final Exam: The final exam will be cumulative, i.e., cover all of the topics that we covered in the course. The final exam will take place in SBE 210 on Wednesday, November 21, 2018 from 10:00a.m-12:00p.m. You will have the entirety of the allotted time to finish the exam.

Late Assignments: I will accept late assignments, but only up to 24 hours after the time that it is due. The highest possible grade for a late homework assignment is 50% of the total points. If you cannot make it to class to submit a hard copy of your homework, then you should e-mail a copy of it to me, either as a PDF or by taking a picture of it with your phone.

Grading Scale: Your total score will be continually updated on Blackboard

A	93-100	A-	88-92.99	B+	83-87.99
B	78-82.99	B-	73-77.99	C+	69-72.99
C	64-68.99	C-	60-63.99	D+	55-59.99
D	50-54.99	D-	45-49.99	F	< 45

Early Alert System: North Central College cares about, and is committed to, the safety and success of all members of the College community. If you or someone you know may be struggling academically and/or personally, College resources and assistance are available. As your Faculty, I may seek support for you by passing information on or sharing concern with the Office of Student Affairs, Center for Student Success, and/or Behavioral Intervention Team by submitting an Early Alert referral. You may also submit an Early Alert referral if you or another member of our campus community is in need of assistance. For more information on the Early Alert process visit <http://cardinalnet.northcentralcollege.edu/student-life/early-alert>

Course Outline (Tentative)

Week	Details	Readings
<i>The Economics of Money and Interest</i>		
1	Introduction and Foundations <ul style="list-style-type: none"> ➤ Functions of money, credit, and banks ➤ Asymmetric information ➤ Monetary aggregates ➤ Money demand and the LM curve 	M&B3: Chapters 2, 3, 11
2	Intertemporal Choice <ul style="list-style-type: none"> ➤ The real rate of interest ➤ Backward-bending loan supply curve ➤ Loanable funds and the IS curve 	M&B3: Chapter 13; Notes
3	Interest Rates and Term Premium <ul style="list-style-type: none"> ➤ Yield curve ➤ Fisher equation and inflation expectations 	M&B3: Chapters 5, 6; Readings 1, 2
4	The Banking System and Historical Failures <ul style="list-style-type: none"> ➤ Credit rationing ➤ Credit risk and securitization ➤ Interest rate risk and fed funds futures 	M&B3: Chapters 8, 9; Reading 3
5	Money Creation <ul style="list-style-type: none"> ➤ Money multipliers ➤ The market for bank reserves & IOR ➤ Revised LM curve 	M&B3: Chapter 16; Reading 4
<i>The Federal Reserve and Monetary Policy</i>		
6	The Federal Reserve Act and the Dual Mandate <ul style="list-style-type: none"> ➤ Structure of the Fed and Fed independence ➤ The Fed's loss function ➤ Phillips Curve and expectations 	M&B3: Chapters 15, 17
7	Rules versus Discretion <ul style="list-style-type: none"> ➤ Time inconsistency ➤ Policy rules: k-percent-, McCallum-, Taylor Rule ➤ Inflation targeting 	M&B3: Chapter 18; Notes; Readings 5, 6
8	Applications of IS-LM <ul style="list-style-type: none"> ➤ Choice of policy instrument ➤ Aggregate Supply-Aggregate Demand Analysis ➤ Policy at the zero-lower bound 	M&B3: Chapter 12; Reading 7
9	Alternative policy targets <ul style="list-style-type: none"> ➤ NGDP: market monetarist redux ➤ FX rate: China's FX policy 	M&B3: Chapter 14; Readings 8, 9
10	Financial Crisis of 2008: Taylor vs Bernanke <ul style="list-style-type: none"> ➤ Housing bubble ➤ Unconventional monetary policy ➤ Alternative Taylor Rules 	GOT: Chapters 1-4; Reading 10
11	FINAL EXAM	Everything

Readings

- Reading 1: *Inflation Expectations Are Important to Central Bankers, Too* from the Federal Reserve Bank of St. Louis
- Reading 2: *A Prediction Market for Inflation* from the New York Times
- Reading 3: *How Well Does the Federal Funds Futures Rate Predict the Future Federal Funds Rate?* from the Federal Reserve Bank of St. Louis
- Reading 4: *Fed Funds Futures Volume Soars on Minutes' Mention of IOER Tweak* from Bloomberg
- Reading 5: *San Francisco Fed President Calls for Inflation Policy Rethink* from the Financial Times
- Reading 6: *The Case for a Higher Inflation Target Gets Stronger* from moneyandbanking.com (Cecchetti and Schoenholtz)
- Reading 7: *IS-LMentary* by Paul Krugman from the New York Times
- Reading 8: *Nominal GDP Futures Targeting* by Scott Sumner (JFS, 2015)
- Reading 9: *The Global Saving Glut and the US Current Account Deficit* by Ben Bernanke (2005)
- Reading 10: *The Taylor Rule: A Benchmark for Monetary Policy* by Ben Bernanke (2015)

Economic Indicators Covered

Classification	Variables
Money	Total reserves, monetary base, M1, M2, Divisia, Multipliers, Velocity
Credit	Total consumer credit, Senior Loan Officer Survey
Interest Rates	IOR, Federal Funds Rate, Treasuries, LIBOR, CD
Inflation	GDP deflator, PCE deflator, PPI, CPI
Expected Inflation	Survey of Consumer Sentiment, Survey of Consumer Expectations, Survey of Professional Forecasters, Break-Even Inflation Rate (TIPS)
Output	Potential Output, Real GDP
Asset Prices	Case-Shiller Home Price Index, S&P 500
Systemic Risk/Crisis	Term spread, TED spread, LIBOR-OIS spread, VIX, KCFSI
International	Various FX rates, US current account

Some Pedagogical Resources

Khan Academy: 'The Monetary System' Playlist:

<https://www.youtube.com/user/khanacademy/playlists>

Intermediate Macroeconomics by Julio Garin, Robert Lester, and Eric Sims available at:

https://www3.nd.edu/~esims1/gls_textbook.html

Free Money and Banking textbook:

<https://www.saylor.org/site/textbooks/Money%20and%20Banking.pdf>