

Economics 261.02
Money, Banking, and Financial Markets
Spring 2004

Monday, Wednesday, and Friday, 3:00-3:50pm
Fulton Hall, Room 220

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Office Hours: Monday, 4:00-5:00pm and Wednesday, 12:30-1:30pm

<http://www2.bc.edu/~irelandp/ec261.html>

Course Description

As its title suggests, this course surveys a variety of topics related to money, banking, and financial markets. In particular, the course has six parts. Part 1 provides an overview of the financial system as well as introduction to money and its role in the economy. Part 2 focuses on the behavior of interest rates. Part 3 develops a model of stock prices. Part 4 studies banks and bank management. Part 5 looks at the money supply process. Part 6 considers the Federal Reserve and the conduct of monetary policy.

Course Materials

Ultimately, this course is defined by the material discussed in class. For your convenience, copies of my lecture notes are available through the course webpage, listed above. Together with the required textbook, Frederic S. Mishkin's *The Economics of Money, Banking, and Financial Markets* (Seventh Edition, Pearson Addison Wesley, 2004), these lecture notes will serve as your main reference for the course.

Course Requirements and Grading

Grades for this course will be based on a series of five *midterm exams*, a *final exam*, and a series of regular *homework assignments*.

Midterm Exams

The midterm exams will be held during regular class meeting times, as follows:

First Midterm: Wednesday, February 4
Second Midterm: Wednesday, February 25
Third Midterm: Wednesday, March 24
Fourth Midterm: Wednesday, April 14
Fifth Midterm: Wednesday, May 5

These midterm exams will *not* be cumulative, that is, each midterm will only cover material discussed in class sessions since the previous exam.

Final Exam

The final exam will be held during the final exam period at the end of the semester, according to the University's official final exam schedule. For this class, in particular, the final exam is scheduled for Tuesday, May 11 at 9:00am.

The final exam *will* be cumulative, meaning that it will cover material from the entire semester.

Homework Assignments

Regular homework assignments will be collected at each class meeting, except on days when a midterm exam is scheduled. These homework assignments are based on the highly innovative and successful Learning-to-Learn program and involve generating your own review questions from your class notes.

More specifically, following each class meeting, I would like you to carefully review your notes and, as you do so, come up with a short list of *three* review questions based on those notes. Here are some examples of the kinds of questions you might think of, based on the lecture notes available on the web:

What are the main differences between commercial paper and corporate bonds?

How and why does the spread between the interest rates on corporate bonds and US Treasury bonds vary over time?

According to the Gordon growth model, what are the three main factors that determine the price of a stock?

When one of Fleet Bank's customers deposits an additional \$100 in his or her checking account, what happens to Fleet's assets and liabilities?

When the Federal Reserve conducts an open market purchase, what happens to the monetary base?

To complete the assignment, all you need to do is to write your three questions down on a piece of paper with your name on it and hand your paper in at the next class meeting.

By asking yourself questions like these as you review your notes, you'll soon see how the procedure helps you in learning, as opposed to memorizing, the material discussed in class. And, by regularly asking yourself the same types of questions that will appear on the midterm and final exams, you'll simultaneously be preparing for those exams.

Grading System

To compute your grade for the course as a whole, I will begin by dropping the lowest score that you receive on the five midterms. Each of the remaining four midterms will then count towards 15 percent of your course grade, for a total of $4 \times 15 = 60$ percent. The final exam will count towards 25 percent of your course grade, and the homework assignments will determine the remaining 15 percent.

In summary, your course grade will be based on

Best four out of five midterm exams, 15 percent each	= 60 percent
Final exam	= 25 percent
Homework assignments	= 15 percent
TOTAL	= 100 percent

Policies on Make-Up Exams and Late Homework Assignments

The grading system described above, which involves dropping the lowest of your five midterm scores, is designed to provide you with some insurance against having a bad day or even being unable to attend one of the midterm exams. Because this insurance is provided to you, no make-up exams will be given.

Similarly, for the purposes of grading, late homework assignments will not be accepted. If you can't make it to class on any given day, you can hand in that day's homework assignment anyway by dropping it off *before* class in my mailbox, which is located in the Economics Department mailroom (Administration Building at 21 Campanella Way, Room 411). If even that proves impossible, please remember that these assignments are numerous and, hence, each one plays only a small role in determining your overall course grade. If it simply isn't feasible for you to hand in a list of questions before or during class on any given day, that's ok: you should still be able to earn a good grade for the course as a whole, provided such events are isolated and that you otherwise hand in the assignments regularly.

Academic and Personal Integrity

Please re-familiarize yourself with the University's policies on academic integrity, which are described on the web at

http://www.bc.edu/bc_org/avp/enmgt/stserv/acd/univ.html#integrity

Needless to say, cheating, plagiarism, and collusion in this course cannot and will not be tolerated.

Office Hours

I will hold regular office hours (Administration Building at 21 Campanella Way, Room 444) on Mondays from 4:00 to 5:00pm and on Wednesdays from 12:30 to 1:30pm. I will also be available at other times; to make an appointment, you can reach me by phone by 552-3687 or by email at irelandp@bc.edu.

Course Outline

1. Introduction

An Overview of the Financial System (Mishkin's Ch. 2)
What is Money? (Ch. 3)

2. Interest Rates

Understanding Interest Rates (Ch. 4)
The Behavior of Interest Rates (Ch. 5)
The Risk and Term Structure of Interest Rates (Ch. 6)

3. The Equity Markets

A Model of Stock Prices (Ch. 7)

4. Banks and Bank Management

Banking and the Management of Financial Institutions (Ch. 9)

5. The Money Supply Process

Introduction to the Money Supply Process (Ch. 15)
A Simple Model of Multiple Deposit Creation (Ch. 15)
The Fed's Control of the Monetary Base (Ch. 15)
Determinants of the Money Supply (Ch. 16)

6. The Federal Reserve and the Conduct of Monetary Policy

Structure of the Federal Reserve System (Ch.14)
The Tools of Monetary Policy (Ch. 17)
Conduct of Monetary Policy: Goals and Targets (Ch. 18)
Federal Reserve Operating Procedures (Ch. 17)