

ECN135B: Money, Banks and Financial Institutions

Winter 2005	CRNs 92806 & 92807	
Lectures	T & Th 4:40 pm-6:00 pm	00202 WELLMN
Section B01	T 7:10 pm-8:00 pm	01132 BAINER
Section B02	T 6:10 pm-7:00 pm	01132 BAINER

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Objectives: This course addresses the role of money and financial intermediaries in the operation of the US economy. The goal of the class is to familiarize you with analysis of monetary institutions, the banking system, the Federal Reserve System, and the tools of monetary policy; we will apply the material to current cases. The course provides an overview of the US financial system, the operation and regulation of depository institutions, the theory and practice of monetary policy. A number of formal models will be presented and their relation with data discussed. The lectures will blend theoretical modeling with institutional description and discourses into financial history.

Prerequisites: ECN101 or ECN105 (Intermediate macro theory or intermediate macroeconomics). The course will be taught at an intermediate level.

Textbook: *The Economics of Money, Banking, and Financial Markets (M)* by Frederic S. Mishkin, 7th edition, 2004, Addison-Wesley. The course closely follows the textbook.

Other materials: Video *Trillion Dollar Bet* will be shown in class.

In addition, the book *The Vandals' Crown: How Rebel Currency Traders Overthrew the World's Central Banks* by Gregory Millman, 1995, and newspaper articles will be quoted and used periodically. Some additional materials will be posted on the web or handed out in class.

Outline of Topics:

The course till midterm deals with Money and Financial Intermediation (FI). This entails:

1. Money: the definition & the role in the economy [3, 5 + money supply & demand]
2. Banking system; banking management & regulation [2, 8, 9, 10]
3. Interest rates [4, 5, 6]
4. Risks and risk management [6]
5. Trend for securitization & modern financial securities [12, 13]
6. LTCM case study [13]

The discussion will concentrate on financial intermediation and economic role of banks in credit provision (evaluation and allocation). Credit is important due to the fact that

credit allocation utilizes interest rates and on the other hand, credit influences the determination of the interest rates (their level & term structure) and of the exchange rates. The course after midterm deals mainly with the Federal Reserve System and the monetary transmission mechanisms of its economic policies:

1. Overview of Federal Reserve System [14, 16 (money supply)]
2. ISLM model [23]
3. Conduct of the monetary policy and its transmission mechanisms [24]
4. International finance & foreign exchange markets [19, 21]
5. In addition, time permitting, we will address the following:

Efficient markets [7]

Rational Expectations [7, 28]

Aggregate demand & supply & their shifters [25]

Central Banks: cooperation and competition

Neo-Classical and Neo-Keynesian Models [28]

Course Web Page: <http://www.econ.ucdavis.edu/faculty/gala/ECN135>

Lecture outlines, readings, homework assignments and solutions keys, and calendar of due dates will be posted.

In-class questions: Due to uneven prior background and to provide an equal opportunity to every student, you are encouraged to ask questions during the lecture. Questions that may take the discussion away from the main topic will be relegated to the sections or office hours.

Evaluation: The course grade will be based on your grades for midterm exam, final exam and homework assignments.

Midterm 40% [February, 17, in class]

Final Exam 60%

Grade = 40 % Midterm + 60% Final [Saturday, March 19 at 10:30 am]

The course grades will be assigned on a curve. No make up exams will be given. For students absent for valid reasons (medical, etc.) the grades will be prorated based on the grades of submitted work. Late submissions are penalized.

Class participation is rewarded by points added to your midterm exam score (for the lectures before the midterm) or to your final exam score (for the after midterm lectures).

Homework: There will be four or five homework assignments (HA) (three or four problem sets and one case study). Homework assignments must be complete and two-thirds correct to get a check mark. For every homework assignment missing, late, or not having check mark the final grade will be dropped one step (for example, from B to B- or from D- to F). Missing midterm will be counted as if your midterm score was zero.

Attendance: Attendance is desirable, but not mandatory. The subject of this course is conceptually demanding and hardly could be mastered through an independent self-study.