

ECN 135
Money and Banking
FALL 2011

Instructor: Dr. Professor Kevin D. Salyer, Office: 1120 Social Sciences and Humanities Building.

Time and Location: TR 12:10-1:30, Geidt 1002.

Office Hours: Monday 2-4:00PM or by appointment.

Textbook: The text for this course is *Financial Markets and Institutions, Business School Edition* (2nd Edition) by Frederic Mishkin. The book will primarily be used to provide background and core material that will supplement and complement the lectures. There will be additional (required) articles that will be available from the class web site.

Course Overview: This course will examine the role of banks and other financial intermediaries in the economy. In general, financial intermediaries provide important economic services through asset transformation, risk management, and project monitoring. Banks, being depository institutions, also provide unique liquidity intermediation services. The course will consist of three parts. In Part I we will study bond pricing, the term structure of interest rates and some key asset markets, most notably the mortgage market. Then we will turn our attention to banks as commercial enterprises and examine the measurement and management of bank risk. We will also discuss banking regulation and the role of the Federal Reserve. In the second Part, we will study theoretical models of banks which highlight the role of uncertainty and asymmetric information in the lending process. In Part III, we will discuss the credit crisis and the Fed's response.

Grading: The class grade will be determined by performance in three areas: homework assignments, a midterm and a final. They will count toward the grade as follows.

Assignments	15%
Midterms	35%
Final	50%.

Please note: The final is scheduled for *Tuesday December 6 at 1:00PM* - an alternative exam will **not be offered**.

Course Schedule

Part I: The Basics: Bonds and Financial Intermediaries	Readings
Week 1: Introduction to financial markets, Interest rates and bonds	Chapters 1, 2, and 3
Week 2: Yield Curve and Financial Institutions	Chapters 4, 5, 6, and 8
Week 3: Banks and Bank Management	Chapters 10, & 12
Week 4: Interest Rate Risk and Hedging	Chapter 14
Week 5: The Fed and the Money Supply Process	Chapters 16 & 17
Week 6: Tools and Conduct of Monetary Policy	Chapters 18 & 19
MIDTERM	NOV. 3
Part II: Models of Banks	Readings
Week 7: Risk Aversion, Diversification, Insurance	Articles from class web site
Week 8: Banks as providers of liquidity insurance	Excerpt from Freixas & Rochet
Part III: The Financial Crisis	Readings
Weeks 9: Banking Regulation and Financial Crises	Chapters 9 & 11
Week 10: The Panic of 2008	Cecchetti and Brunnermeier articles

Readings:

1. Brunnermeier, M.K., "Deciphering the Liquidity and Credit Crunch 2007-2008," *Journal of Economic Perspectives*, Winter 2009
2. Cecchetti, S.G., "Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis", *Journal of Economic Perspectives*, Winter 2009.
3. Excerpt from X. Freixas and J. Rochet, *Microeconomics of Banking*, Cambridge, MA: MIT Press.