

Econ 3229-2 Spring 2016      Money and Banking  
MWF 10:00-10:50            Department of Economics  
Waters Auditorium            University of Missouri  
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Office Hours: MW 11-12 and 1-2

### Textbook and MyEconLab

The Textbook for the course is Frederic Mishkin, *The Economics of Money, Banking, and Financial Markets (Business School Edition)*, 4<sup>th</sup> edition (Pearson, 2016), electronic version together with MyEconLab. This course is part of Mizzou's AutoAccess program, which is designed to reduce the cost of course materials to students. You will be able to automatically access the electronic version of the text, together with MyEconLab through Blackboard, beginning on the first day of class. MyEconLab offers several benefits to students, including a series of practice questions for each chapter of the text. As you answer these practice questions, you receive instantaneous feedback, letting you know whether your answer is correct. Another excellent feature of MyEconLab is that, for each of the 120 figures and graphs in the Mishkin text, a verbal explanation ("mini-lecture" that typically lasts about 1-2 minutes) explaining the analytical graph or data in the figure is given by Prof. Mishkin. This is an important feature, as understanding analytical figures and graphs showing data will be an important factor influencing your success in this class. Also, as the course progresses, timely current items in the news will be posted in MyEconLab. Some of these will be discussed in class. Other features of MyEconLab will be discussed on the first day of class.

The cost of \$87.99 will be charged to your student account on February 8. **No trip to the bookstore is required.** For students who strongly prefer to work from a printed copy, a *strictly optional* printed loose-leaf version of the text is available for sale at The Mizzou Store for an additional \$72.26 (not required). Also, The Wall Street Journal is available to students at the bargain rate of \$15 for a 15 week (six issues per week) subscription (1/4 of the normal price). The WSJ is an excellent source of financial and macroeconomic news and tables of data that will be useful in this class. You can subscribe at [www.wsj.com/studentoffer](http://www.wsj.com/studentoffer). **(Not required)**

### Nature of the Money and Banking Class

This class will feature in-depth coverage of financial markets, including the money market, bond market, stock market, and foreign exchange market. In the first few weeks of the course we will examine the causes and consequences of changes in prices in these markets (interest rates or yields, stock prices, and foreign exchange rates, respectively). We will overview the various types of financial instruments and institutions, examine the rationale for regulation and supervision of banks and other financial institutions, and examine the extent to which these regulations serve their intended purposes. After the first exam we will devote 3-4 weeks to a comprehensive treatment of our central bank--the Federal Reserve System (the "Fed")--, its makeup and structure, strategy, and tools of policy. We will study the various forces that influence the nation's money supply. Then we will examine the *transmission mechanism*--the various avenues through which Fed policy actions impact economic activity. You will emerge from the course with a much more solid understanding of the Federal Reserve and the role it

plays in influencing the level of interest rates, the availability of credit, the supply of money and, ultimately, the nation's level of output, employment, and price level.

In the past 20 years, the U.S. has experienced the largest stock market bubble in history (1997-2000) as well as the largest housing bubble in history (1998-2006). Bubbles always collapse, sometimes with enormously adverse consequences. The collapse of the stock market bubble in 2000-2002, which culminated in a 53 percent decline in overall stock market averages, (and a 78 percent decline in the NASDAQ index of technology stock prices), contributed only to a very mild recession in 2001. On the other hand, the deflation of the housing bubble in the U.S. and numerous other nations during 2006-2011 ushered in an extremely severe financial crisis that came very close to triggering a catastrophic world-wide economic collapse. Innovative and forceful actions by the Federal Reserve and other central banks prevented a world-wide depression whose magnitude might have matched or exceeded that of the Great Depression of the 1930s. In spite of the Fed's Herculean efforts, however, the U.S. experienced the Great Recession of 2007-2009—the most severe U.S. economic contraction since the Great Depression. The numerous forces that produced the housing and credit bubbles and the ensuing Great Financial Crisis will be examined in some detail in the latter portion of this course. Also, the actions implemented by the Fed to prevent a catastrophic outcome like the 1930s will be examined.

In short, this class should be of significant benefit to you in terms of your understanding of future financial and macroeconomic developments, your success in your professional career, and perhaps even your management of your personal financial affairs. If you work hard to master the material, this course is likely to be the most beneficial and valuable economics course you will have taken in your career.

### Importance of Attending Class

Class lectures will typically not simply regurgitate the material assigned in the text. Instead, in class we will often go beyond the text and explain concepts in a different way than is done in the text. This will facilitate learning. This will be a challenging class and many of the concepts are not particularly easy to grasp. Accordingly, to master the material it is important to both read the text and attend class, and it is important to note that you will get a lot more out of lectures if you have first read the assigned materials in the text. The overwhelming majority of exam questions will involve material discussed in class. With the exception of the first week of class, lecture notes will not be posted. In addition, I will take attendance about five or six times during the term, with each attendance being worth 2 bonus points, for a possible 10-12 bonus points during the semester. Especially with the plus-minus grading system at Mizzou, class attendance is likely to impact the final course grade for a large number of students.

### Homework, Quizzes, and Exams

During this term, we will have 8 homework assignments, 3 quizzes, two one-hour exams, and a final exam, with a total of 505 points being possible. The best 7 of your 8 homework scores will count toward your grade. (You will drop your lowest homework score.) There will be NO

MAKEUP HOMEWORKS FOR ANY REASON. **Thus, if you fail to complete a homework assignment before the specified deadline—even if you have a valid reason— your score will be zero and that will be the homework assignment that you drop.** You may submit a homework assignment numerous times. Only the last version submitted prior to the deadline will be graded and counted. It is advised that you submit homework assignments at least a day before they are due in case you might encounter a computer glitch or other event that might cause to you miss the deadline for submission of the homework.

Points Possible in the Class:

7 best homeworks @ 10 points = 70 points

3 quizzes @ 25 points = 75 points

2 exams @ 100 points = 200 points

1 final exam @ 160 points

Total points Possible = 505

\*\*Grading Scale

88% - 100% = A

75% - 87.9% = B

62% - 74.9% = C

50% - 61.9% = D

less than 50% = F

\*\*Please note that this scale may appear “soft.” However, my exams tend to be a bit more difficult than the norm. Thus, the apparently “generous” grading scale is likely to be misleading.

The University uses plus/minus grading. Accordingly, the top 3 percentage points within each of the above ranges will merit a “plus,” while the bottom three percentage points will warrant a minus. For example, a student with a final course percentage of 85% to 87.9 % will earn a B+, while a student in the range of 75% to 77.9% will earn a B-. You can calculate your own grade at any point in time throughout the term by dividing your total points by the number of points possible at that time, and applying the above scale.

Emergency Missing of a Quiz or Exam

In the event of an emergency that necessitates missing a quiz or exam (sickness, death in the family, military order, etc.) that affects your attendance on the day of a quiz or exam, you will be excused from the exam **if and only if** you adhere to the following procedure: you must provide me your justification via e-mail and follow up with timely documentation (doctor’s note, written notice of military order, obituary notice in event of death in the family, along with your relationship to the deceased) upon your return to campus. In the event you have a valid reason

for missing a quiz or exam, your percentage score on the final exam will be used to calculate a score for the quiz or exam you missed. Because the final exam is comprehensive and difficult, it is advisable to make every effort to take each quiz and exam as scheduled. If you miss a quiz or exam and fail to follow the above procedure, a zero will be recorded for the missed quiz or exam.

### Teaching Assistants

David You (Head TA) [zy886@mail.missouri.edu](mailto:zy886@mail.missouri.edu)

Cecilia Wang [xwfcy@mail.missouri.edu](mailto:xwfcy@mail.missouri.edu)

Ock Hyun Joe [ojn65@mail.missouri.edu](mailto:ojn65@mail.missouri.edu)

\*\* Office hours of Teaching Assistants to be announced on the course Blackboard at <https://courses.missouri.edu/>.

### Assignment Schedule

Week 1 (January 20-22)	Mishkin Ch. 1 (“Why Study Money, Banking, and Financial Markets?”), and appendix, and “Overview and Outlook” file to be posted on Blackboard
Week 2 (January 25-29)	Mishkin Ch. 2 (“Overview of Financial System”) and Ch.3 (“What is Money?”)
Week 3 (Feb. 1-5)	Mishkin Ch.4 (“The Meaning of Interest Rates”)
Week 4 (Feb 8-12)	Mishkin Ch. 5 (“The Behavior of Interest Rates”)
Week 5 (Feb 15-19)	Mishkin Ch. 6 (“The Risk and Term Structure of Interest Rates”)
Week 6 (Feb. 22-26)	Catch up and Review for Exam 1

### **\*\*Exam 1 Thursday February 25, 6:30-7:30 p.m. in Agriculture Building, Conservation Auditorium**

Week 7 (Feb. 29 - March 4)	Mishkin, Chapter 7 (“The Stock Market, the Theory of Rational Expectations, and the Efficient Market Hypothesis”) and material to be posted on Blackboard
Week 8 (March 7-11)	Mishkin, Chapter 9 (“Banking and Management of Financial Institutions”)
Week 9 (March 14-18)	Mishkin, Chapter 10 (“Economic Analysis of Financial

Regulations”) and Chapter 11 (“The Banking Industry: Structure and Competition”)

Week 10 (March 21-25) Mishkin, Chapter 16 (“Central Banks and the Federal Reserve System”) and Chapter 17 (“The Money Supply Process”)

**Spring Break (March 26 - April 3)**

Week 11 (April 4-8) Mishkin, Chapter 18 (“Tools of Monetary Policy”) and Chapter 19 (“The Conduct of Monetary Policy: Strategy and Tactics”)

**Exam 2 Thursday April 7, 6:30-7:30 p.m. , Agriculture Building, Conservation Auditorium**

Week 12 (April 11-15) Mishkin, Chapter 12 (“Financial Crises”) and Chapter 13 (“Non-bank Finance”)

Week 13 (April 18-22) Thomas materials on financial crises posted on Blackboard

Week 14 (April 25 - 29) Mishkin, Chapter 22 (“Quantity Theory, Inflation, and the Demand for Money”)

Week 15 (May 2-4) Mishkin, Chapter 24 (“Monetary Policy Theory”)  
No class on Friday May 6

**\*\* Final Exam Monday May 9, 5:30-7:30 p.m., location to be announced**

ACADEMIC INTEGRITY POLICY

Academic integrity is fundamental to the activities and principles of a university. All members of the academic community must be confident that each person's work has been responsibly and honorably acquired, developed, and presented. Any effort to gain an advantage not given to all students is dishonest whether or not the effort is successful. The academic community regards breaches of the academic integrity rules as extremely serious matters. Sanctions for such a breach may include academic sanctions from the instructor, including failing the course for any violation, to disciplinary sanctions ranging from probation to expulsion. When in doubt about plagiarism, paraphrasing, quoting, collaboration, or any other form of cheating, consult the course instructor. Academic Dishonesty includes but is not necessarily limited to the following: A. Cheating or knowingly assisting another student in committing an act of cheating or other academic dishonesty. B. Plagiarism which includes but is not necessarily limited to submitting examinations, themes, reports, drawings, laboratory notes, or other material as one's own work when such work has been prepared by another person or copied from another person. C.

Unauthorized possession of examinations or reserve library materials, or laboratory materials or experiments, or any other similar actions. D. Unauthorized changing of grades or markings on an examination or in an instructor's grade book or such change of any grade report.

**ACADEMIC INTEGRITY PLEDGE:** *"I strive to uphold the University values of respect, responsibility, discovery, and excellence. On my honor, I pledge that I have neither given nor received unauthorized assistance on this work."* Students are expected to adhere to this pledge on all graded work whether or not they are explicitly asked in advance to do so. The University has specific academic dishonesty administrative [procedures](#). Although policy states that cases of academic dishonesty must be reported to the Office of the Provost for possible action, the instructor may assign a failing grade for the assignment or a failing grade for the course, or may adjust the grade as deemed appropriate. The instructor also may require the student to repeat the assignment or to perform additional assignments. In instances where academic integrity is in question, faculty, staff and students should refer Economics 3229 Section 2 Syllabus – Fall 2015 5 to [Article VI of the Faculty Handbook](#). Article VI is also available in the [M-Book](#). Article VI provides further information regarding the process by which violations are handled and sets forth a standard of excellence in our community.

#### STUDENTS WITH DISABILITIES:

If you anticipate barriers related to the format or requirements of this course, if you have emergency medical information to share with me, or if you need to make arrangements in case the building must be evacuated, please let me know as soon as possible. If disability related accommodations are necessary (for example, a note taker, extended time on exams, captioning), please register with the Office of Disability Services (<http://disabilityservices.missouri.edu>), S5 Memorial Union, 573- 882-4696, and then notify me of your eligibility for reasonable accommodations. For other MU resources for persons with disabilities, click on "Disability Resources" on the MU homepage.

#### INTELLECTUAL PLURALISM STATEMENT (FROM OFFICE OF THE PROVOST)

The University community welcomes intellectual diversity and respects student rights. Students who have questions or concerns regarding the atmosphere in this class (including respect for diverse opinions) may contact the Departmental Chair or Divisional Director; the Director of the Office of Students Rights and Responsibilities (<http://osrr.missouri.edu/>); or the MU Equity Office (<http://equity.missouri.edu/>), or by email at [equity@missouri.edu](mailto:equity@missouri.edu). All students will have the opportunity to submit an anonymous evaluation of the instructor(s) at the end of the course.