

Spring 2017
Waters Auditorium
MWF 10:00-10:50

Department of Economics
University of Missouri
Money, Banking, and Financial Markets
Section 2

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The Textbook for the course is Frederic Mishkin, *The Economics of Money, Banking, and Financial Markets (Business School Edition)*, 4th 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 that illustrate data on key variables will be an important factor influencing your success in this class. Some of these graphs from Mishkin will be discussed in class. You might also find it useful to review Mishkin's powerpoint slides as we cover assigned chapters of the book.

The cost of \$90.99 will be charged to your student account on January 26. **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 low 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. **(Not required)**

Nature of the Money, Banking and Financial Markets Class

The class involves a heavy dose of current events, and begins with an overview of the current state of the U.S. and world economies, including a review of key macroeconomic and financial terms (about 3 class lectures). We will then turn to an in-depth coverage of financial markets, including the money market, bond market, stock market, and foreign exchange market. We will spend about 5 weeks examining the instruments used in these markets and the causes and consequences of changes in prices in these markets, that is, causes and consequences of changes in interest rates and bond yields, stock prices, and foreign exchange rates, respectively. We will overview the various types of financial instruments and institutions (with particular emphasis on commercial banks), 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.

We will then devote 3-4 weeks to a comprehensive treatment of our **central bank**---the **Federal Reserve System** (the “**Fed**”)–, its makeup and structure, objectives and strategy, and tools of policy. We will study the various forces that influence the level of the nation’s interest rates and money supply. We will examine the *transmission mechanism of monetary policy*—the various avenues through which Fed policy actions powerfully impact economic activity. You will emerge from the course with a much more solid understanding of the Federal Reserve and the important role it plays in influencing the level of interest rates, the availability of credit, the supply of money and, ultimately, the level of the nation’s 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), as well as a major bond market bubble that peaked in 2015. Because a bubble involves an unwarranted and unsustainable increase in asset prices, bubbles inevitably collapse, sometimes with enormously costly 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 and brief recession in 2001.

On the other hand, the protracted deflation of the housing bubble in the U.S. and numerous other nations during 2006-2012 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 around the world 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 of the dozen U.S. economic contractions 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 extraordinary actions implemented by the Federal Reserve to prevent a catastrophic outcome like the 1930s will be examined, and contrasted with the inept performance of the Federal Reserve in the economic disaster of the 1930s.

In short, this class should be of significant benefit to you in terms of your understanding of contemporary and future financial and macroeconomic developments, your success in your professional career, and perhaps even your future 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 require concentrated effort in order to fully understand. To master the material it is important to read the text and attend class, and it is important to note that you will get more out of lectures if you have first read the assigned materials in the text or at least read the Powerpoint slides in

Mishkin.

The overwhelming majority of exam questions will involve material discussed in class. Lecture notes will be posted in somewhat condensed and abbreviated form. To fill in these notes and to reinforce learning from the text, it is imperative to attend class. Especially with the plus-minus grading system at Mizzou, class attendance will definitely impact the course grade for a large number of students. Last term few of the 70 students who earned an “A” cut class frequently.

Role will be taken each day via use of clickers, so if you have not already purchased one, it will be necessary to do so. This class will meet approximately 41 times during the semester (plus two Thursday evening exams). Those students who are absent from class 5 or fewer times during the term will be awarded 10 bonus points at the end of the term. To avoid “clicker fraud” we will take role the old-fashioned way a few times. Anyone who was clicked in but not actually in attendance one or more times will forfeit the 10 bonus points.

Homework, Quizzes, and Exams

During this term, we will have 6 homework assignments, 3 quizzes, two one-hour exams, and a final exam, with a total of 500 points being possible. The best 5 of your 6 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 on that assignment will be zero and that will be the homework assignment that you drop.**

You may submit a homework assignment as many as three times. Only the highest score of the three attempts submitted prior to the deadline will be counted. It is strongly advised that you submit homework assignments at least a day before they are due in case you might encounter a computer glitch, automobile breakdown, or other event that might cause you to miss the deadline for submission of the homework.

Points Possible in the Class:

5 best homework scores @ 14 points = 70 points

3 quizzes @ 30 points = 90 points

2 exams @ 100 points = 200 points

1 final exam @ 140 points

Total points possible = 500 points

Note: The two one-hour exams are scheduled for Thursday evenings from 6:30 to 7:30 p.m. (February 23 and April 6) in classrooms to be assigned later. The first two in-class 30-point quizzes will be given eight days prior to the ensuing Thursday evening hour exam, and a third in-class quiz will be given on Wednesday, April 26. Hence, the 30-point quizzes will be given on Wednesday February 15, Wednesday March 22, and Wednesday April 26.

**Grading Scale

86% - 100 % = A
72% - 85.9 % = B
60% - 71.9 % = C
50% - 59.9 % = D
less than 50 % = F

**Please note that this scale may appear “soft.” However, my exams tend to be 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 83% to 85.9 % will earn a B+, while a student in the range of 72% to 74.9% 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.

Review Sessions prior to each quiz and exam

I will conduct a review session prior to each quiz and each hour exam. These 60 minute sessions will be held at 5 p.m. in Waters Auditorium on the following Tuesdays: Feb 14, Feb 21, March 21, April 4, and April 25.

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, etc.) upon your return to campus. In the event you have a valid reason for missing a quiz, your percentage score on the ensuing hour exam will be used to calculate and provide a pro-rata score for the quiz or exam you missed. If you have a valid excuse for missing an hour exam, I will either give you a makeup exam or pro-rate your final exam score in lieu of the exam you miss. 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.

Graduate Teaching Assistants (Professional Building Room 5)

David You (Head TA) zy886@mail.missouri.edu
Olivia Bian ybzkf@mail.missouri.edu

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

Undergraduate Teaching Assistant

Jonathan Becker, the top student in the class last term, has volunteered to serve as an undergraduate teaching assistant during the semester. I believe you will find Jonathan beneficial in helping you understand the course material. His e-mail address is jeb445@mail.missouri.edu and his office hour will be Mondays 11:00 – 12:30.

Assignment Schedule

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| Week 1 (Jan 17-20) | Mishkin Ch. 1 (“Why Study Money, Banking, and Financial Markets?”), and appendix, and “Overview and Outlook” file to be posted on Blackboard, along with list of key terms . |
| Week 2 (Jan 23-27) | Mishkin Ch. 2 (“Overview of Financial System”) and Ch.3 (“What is Money?”) |
| Week 3 (Jan 30-Feb 3) | Mishkin Ch.4 (“The Meaning of Interest Rates”) |
| Week 4 (Feb. 6-10) | Mishkin Ch. 5 (“The Behavior of Interest Rates”) |
| Week 5 (Feb 13-17) | Mishkin, Ch. 6 (“The Risk and Term Structure of Interest Rates”) |

Quiz 1 (Wednesday, Feb 15)

Week 6 (Feb 20-24) Catch up and Review

Exam 1 Thursday Feb 23 6:30 – 7:30 p.m. location TBA (no class Friday)

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|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Week 7 (Feb 27-March 3) | Mishkin, Ch 7 (“The Stock Market, the Theory of Rational Expectations, and the Efficient Market Hypothesis,”) and material to be posted on Blackboard. |
| Week 8 (March 6-10) | Mishkin, Chapter 20 (“The Foreign Exchange Market”) and Chapter 21 (“The International Financial System,” pp. 501 (top)-509 (bottom)) |
| Week 9. (March 13-17) | Mishkin, Chapter 9 (“Banking and Management of Financial Institutions”) and Chapter 10 (“Economic Analysis of Financial Regularions”) |
| Week 10 (March 20-24) | Mishkin, Chapter 11 (“Banking Industry: Structure and Competition”) |

Quiz 2: Wednesday March 22

SPRING BREAK (March 26 – April 2)

Week 11 (April 3-7) Mishkin, Chapter 16 (“Central Banks and the Federal Reserve System”) and Chapter 17 (“The Money Supply Process”)

Exam 2: Thursday, April 6 (6:30 -7:30 p.m.)—location TBA (No class Friday)

Week 12 (April 10-14) Mishkin, Chapter 18 (“Tools of Monetary Policy”) and Thomas, Chapter 10 (“Federal Reserve Policy in the Great Depression”) (posted on Blackboard).

Week 13 (April 17-21) Mishkin, Ch. 12 (“Financial Crises”) and Thomas Ch. 2 (“The Nature of Banking Crises”) posted on Blackboard

Week 14 (April 24-28) Thomas, Chapter 4 (“Development of the Housing and Credit Bubbles”) and Chapter 5 (“Busting of the Twin Bubbles”)

Quiz 3: Wednesday, April 26

Week 15 (May 1-4) Thomas, Chapter 11 (“The Federal Reserve’s Response to the Great Crisis”), posted on Blackboard, and Mishkin, Ch. 19 (“The Conduct of Monetary Policy: Strategy and Tactics”)

Friday May 5 “Reading Day,” no class

**** Final Exam: Tuesday May 9, 3:00 – 5:00 p.m., location to be determined**

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://disabilitycenter.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. All students will have the opportunity to submit an anonymous evaluation of the instructor(s) at the end of the course.