

Spring 2018
Waters Auditorium
MWF 10-10:50 A.M.

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

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The Textbook for the course is Stephen Cecchetti and Kermit Schoenholtz, *Money, Banking, and Financial Markets 5th* edition (2017), electronic version, together with Connect. 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 Connect, through Canvas, beginning on January 15. Connect offers several benefits to students, including a series of practice questions for each chapter of the text. As you answer these practice questions, you will receive instantaneous feedback, letting you know whether your answer is correct, and providing background information on the question. You will also find it beneficial if you review Cecchetti's powerpoint slides for each assigned book chapter as we cover the material in that chapter.

The cost of \$101 will be charged to your student account on January 12. **No trip to the bookstore is required.** If you have questions, call 573-882-7611 or e-mail AutoAccess@missouri.edu. For students who strongly prefer to work from a printed copy, a **strictly optional** printed loose-leaf version of the text is available (not required) for sale at The Mizzou Store for an additional fee. 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 contemporary 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 related to financial and macroeconomic analysis and developments, 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 money and financial markets, including the money market, bond market, stock market, and foreign exchange market. We will spend about 5 weeks examining the instruments traded 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), analyze 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 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*—that is, 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 important role it plays in influencing the level of the nation's 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) and the largest housing bubble in history (1998-2006), as well as the recent Bitcoin episode. 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 U.S. 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 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 and other items posted online under “course content.”

The overwhelming majority of exam questions will involve material discussed in class. Lecture notes for each week will be posted prior to the beginning of the week. **READ THESE NOTES BEFORE CLASS.** The ensuing class lecture will solidify your learning from the notes and

enable you to ask questions in class. Just to make sure you attend class regularly, **we will have a 2 point quiz during most class periods over material discussed in the PREVIOUS class lecture.** In fact, we will have at least 30 of these brief quizzes during the term, and your best 20 scores will count (a total of 40 points) toward your grade. Since we are only counting your best 20 scores out of more than 30 quizzes, there will be no makeup daily quizzes for any reason whatsoever. Especially with the plus-minus grading system at Mizzou, class attendance will definitely impact—via the quizzes and by boosting your exam scores--the course grade for a large number of students. Very few of the 45 students who earned an “A” in the course last semester cut class more than 3 times during the term. The majority of those who received a “D” or “F” cut class more than 10 times.

To take these daily quizzes you will need to either have a clicker, or purchase an app for an i-Phone or Android to be used in place of the i-clicker. For more information, contact the University Bookstore or go online to iclicker.com. This class will meet approximately 41 times (plus two Thursday evening exams in lieu of class on the ensuing Friday).

Homework, Quizzes, and Exams

During this term, we will have 6 homework assignments, the daily quizzes, two one-hour exams, and a final exam, with a total of 470 points being possible. The best 5 of your 6 homework scores will count (14 points each) 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, your score on that assignment will be zero and that will be the homework assignment that you drop.**

You may submit each homework assignment a total of **TWO** times. After the first submission you will find out which questions you missed before making your second (final) submission. The higher score of the two attempts (normally the second try) submitted prior to the deadline will be counted. **It is strongly advised that you submit your first try at least a day before the homework deadline** 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

20 best clicker scores @ 3 points (one point for attendance and 2 for the quiz) = 60 points

2 one-hour exams @ 100 points = 200 points

1 final exam @ 140 points

Total points possible = 470 points

****Optional Bonus Points** In addition, students may obtain as many as 20 bonus points by doing the optional Learnsmart quizzes on Canvas in 10 chapters that are designated in the assignment schedule below (The chapters with the bonus quizzes are designated in bold and marked with an asterisk (*). You will receive 2 points for each quiz you take and you must beat the deadline for submission.

Note: The two one-hour exams are scheduled for Thursday evenings from 6:30 to 7:30 p.m. (February 22 and April 5) in Cornell Auditorium.

**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, exams in this class tend to be more challenging than the norm at Mizzou. Thus, the apparently “generous” grading scale is misleading. Mizzou uses plus/minus grading. Accordingly, the top couple of percentage points within each of the above ranges will merit a “plus,” while the bottom couple of percentage points will warrant a minus. For example, a student with a final course percentage of 84% to 85.9 % will earn a B+, while a student in the range of 72% to 73.9% 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 exam

I will conduct two review sessions prior to each hour exam. These 60 minute sessions will be held in Ellis Library Auditorium at 8:00 p.m. on Tuesday, February 20 and Wed February 21 for Exam 1 and at 8:00 p.m. Tues April 3 and Wed. April 4 for Exam 2.

Emergency Missing of a Quiz or Exam

In the event of an emergency that necessitates missing an exam (sickness, varsity athletic event, military order, etc.) that affects your attendance on the day of an 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 prior to the exam, 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. If you have a valid excuse for missing an hour exam, I will either give you a makeup exam. If you miss an exam and fail to follow the above procedure, a zero will be recorded for the missed exam.

Teaching Assistants Room (Professional Building Room 5), phone 884-9090

Fangda Wang fw48n@mail.missouri.edu

Office Hours: Tuesdays, 2 – 4 p.m. in Room 5, Professional Building

Undergraduate Teaching Assistant

Matt Yount, a top-flight student in the class a couple of semesters ago, has volunteered to serve as an undergraduate teaching assistant during the semester. I believe you will find Matt beneficial in helping you understand the course material. His e-mail address is mlytzd@mail.missouri.edu Matt's office hours will be on Wednesdays, 12- 2 p.m. in Room 5, Professional Building.

**Matt has put together vocabulary cards for each chapter of the textbook, available to all students at <https://quizlet.com/join/WxqjASJ3V>.

Assignment Schedule * indicates optional quiz available thru Connect (2 points per chapter)

Week 1 (Jan. 15-19)	(No class Monday due to MLK Holiday) Cecchetti, Preface and Ch. 1 ("An Introduction to Money and the Financial System"), and appendix A and B, and file posted on Canvas (to be announced), along with list of key terms .
Week 2 (Jan.22-26)	Cecchetti, Ch. 2* ("Money and the Payments System")
Week 3 (Jan 29-Feb 2)	Cecchetti, Ch. 3 "Financial Instruments, Markets, and Institutions") And Ch. 4* ("Future Value, Present Value, and Interest Rates")
Week 4 (Feb 5-9)	Cecchetti, Ch. 6* ("Bonds, Bond Prices and Determination of Interest Rates")
Week 5 (Feb 12-16)	Cecchetti, Ch.7* ("The Risk and Term Structure of Interest Rates")
Week 6 (Feb 19-23)	Catch up and Prepare for Exam 1 on Thursday evening
Exam 1 Thursday Feb. 22 at 8:00 p.m. in Cornell Auditorium (no class Friday)	
Week 7 (Feb 25-March 2)	Cecchetti, Ch 8* ("Stocks, the Stock Market, and Market Efficiency")
Week 8 (March 5-9)	Cecchetti, Ch. 10* ("Foreign Exchange") , and Ch. 19 ("Exchange Rate Policy and the Central Bank"), pp. 536 (mid-page) - page 543 (bottom).
Week 9 (March 12-16)	Cecchetti, Ch. 12* ("Depository Institutions: Banks and Bank Management")
Week 10 (March 19-23)	Cecchetti, Chapter 13 ("Financial Institutions Structure") and Ch. 14 ("Regulating the Financial System")
Spring Break (March 24-April 1)	

Week 11 (April 2-6) Cecchetti, **Ch. 15*** (“Central Banks in the World Today”)

Exam 2 Thursday April 5 at 8:00 p.m. in Cornell Auditorium (No class Friday)

Week 12 (April 9-13) Cecchetti, **Ch.16*** (“The Structure of Central Banks: the Federal Reserve and European Central Bank,” pp. 423-437) and Thomas, Chapter 10 (“Federal Reserve Policy in the Great Depression”) (posted on Canvas).

Week 13 (April 16-20) Cecchetti, **Ch. 17*** (“Central Bank Balance Sheet and the Money Supply Process”) and Thomas Ch. 2 (“The Nature of Banking Crises”) posted on Canvas

Week 14 (April 23-27) Cecchetti, Ch. 18* (“Monetary Policy: Stabilizing the Domestic Economy”)

Week 15 (April 30-May2) Cecchetti, Ch. 23, “Modern Monetary Policy and Challenges Facing Monetary Policy,” and Thomas, Chapter 11 (“The Federal Reserve’s Response to the Great Crisis”), posted on Canvas

No class on Friday, May 4 (“Reading Day”)

****Final Exam: 5:30-7:30 p.m., Wednesday May 9 (Place 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.