

Spring 2020  
Middlebush 207  
MWF 10:00-10:50

Department of Economics  
University of Missouri  
Money, Banking, and Financial Markets  
(Honors)

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The Textbook for the course is Frederic Mishkin, *The Economics of Money, Banking, and Financial Markets (Business School Edition)*, 5<sup>th</sup> edition (Pearson, 2019), electronic version together with MyLab Economics. 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 MyLab Economics, through Canvas, beginning on the first day of class. MyLab Economics 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 MyLab Economics is that, for each of the 80 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. You may find it helpful to briefly review Mishkin's powerpoint slides for each assigned book chapter as we cover the material in that chapter.

The cost of the text of about \$89 will be charged to your student account around the end of the first week of class. **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 fee (not required). Also, The Wall Street Journal is available to students at the extraordinarily low rate of \$1 for a 12 week (six issues per week) subscription. The WSJ is an excellent source of financial and macroeconomic news and tables of data. Go to [www.wsj.com/studentoffer](http://www.wsj.com/studentoffer) to see the various subscription offers.

### Nature of the Money, Banking and Financial Markets Class

In this class we will develop appropriate analytical tools to study the forces determining the level of the nation's output and price level, prices in financial markets and many other important phenomena. In class we will incorporate a heavy dose of current events related to ongoing financial and macroeconomic developments. We begin with an overview of the current state of the U.S. and world economies, including a review of key macroeconomic and financial terms (about 4 class periods). 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 4 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), and examine the rationale for regulation and supervision of banks and other financial institutions.

We will then devote about 5 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 Fed’s role in influencing 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. We will discuss the debate about “rules versus discretion” in the conduct of monetary policy. You will emerge from this 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.

Finally, in the last two weeks, we will examine financial crises and the Federal Reserve’s response to these crises. In the past 22 years, the U.S. has experienced the largest stock market bubble in history (1998-2000) and the largest housing bubble in history (2002-2006). 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 during late 2000 to early 2003 (the “Tech Wreck”), 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 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.

The U.S. nonetheless 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 considerable benefit to you in terms of your understanding of contemporary and future financial and macroeconomic developments, and perhaps even your success in your professional career and your future management of your personal financial affairs. If you work hard to learn the material, this course stands a good chance of being the most beneficial and valuable economics course you will have taken in your career.

### Importance of Attending Class

In class we will typically go beyond the text, which is a bit awkward on some topics, and we will explain concepts in a different way than is done in the text. This will facilitate and reinforce 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 clearly advantageous to read the lecture slides posted each week on canvas prior to class. This will ensure that class discussion will reinforce your learning of concepts that you have already become acquainted with when you come to class.

**The overwhelming majority of homework and exam questions will involve material discussed in class.** The text can best be viewed as a way to reinforce your learning of concepts discussed in class. Class notes will be posted in somewhat condensed and abbreviated form. To understand these notes and to reinforce learning from the text, it is imperative to attend class. Class attendance will definitely impact your learning and the course grade for the majority of students.

**Attendance will be expected and noted each day. Those students who are absent from class 2 or fewer times during the term will be awarded 10 bonus points at the end of the term.**

### Homework, Quizzes, and Exams

During this term, we will have 5 homework assignments, three scheduled one-hour exams, four short papers (4-6 pages per paper, **using 1.5 line spacing and normal margins**) and **no final exam**. There will be a total of 500 points possible. Homework assignments will typically be due about two weeks after they are posted on Canvas. **There will be NO MAKEUP HOMEWORKS FOR ANY REASON.**

You may submit a homework assignment two times. After making your first submission you will be informed which questions you missed prior to making your second and final submission. **It is strongly advised that you submit homework assignments a day or so 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 (not counting possible bonus points for attendance)

5 homework scores @ 10 points = 50 points  
 3 exams @ 100 points = 300 points  
 4 Papers (4-6 pages per paper) @ 25 points = 100 points  
 Class participation and discussion = 50 points

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Total points possible = 500 points

### \*\*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 at Mizzou. Thus, the apparently “generous” grading scale might 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.

### Emergency Missing of an Exam

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

### Undergraduate Teaching Assistant (Room 229 in Professional Building on University Avenue)

Bryce Fuemmeler, the top student (out of 125 students) in this class in the fall 2018 term, and my TA for the large lecture sections of this course in the past two terms, will serve as our undergraduate teaching assistant. You will find Bryce an excellent resource in helping you understand the course material. His e-mail address is [bdfp68@mail.missouri.edu](mailto:bdfp68@mail.missouri.edu) and his office hours are Thursday 2-3 p.m. and Friday 12:00- 1:00 p.m. in Prof. Building Room 229.

### Useful Websites

1. FRED DATABASE <http://research.stlouisfed.org/fred2/> This important database contains many hundreds of series of pertinent economic data and graphs on almost anything you might want (unemployment rates, oil prices, stock prices, exchange rates, banking data, interest rates, house prices, etc.). You will want to bookmark this site and spend some time browsing the voluminous economic data and graphs on this site.
2. BOARD OF GOVERNORS OF FEDERAL RESERVE <http://www.federalreserve.gov/>  
This site contains speeches of key Federal Reserve officials and much other information.
3. U.S. TREASURY <http://www.ustreas.gov/> This website contains much data on federal budget deficits, the national debt and various types and maturities of Treasury debt.
4. NATIONAL ECONOMIC TRENDS <http://research.stlouisfed.org/publications/net/>  
This site contains much worthwhile macroeconomic and financial information.

## Assignment Schedule

Week 1 (Jan 22-24)	Mishkin Ch. 1 (“Why Study Money, Banking, and Financial Markets?”), and appendix, and “Overview and Outlook” file to be distributed, along with list of <b>key terms</b> and <b>NAIRU 2020</b> .
Week 2 (Jan 27-31)	Mishkin Ch. 2 (“Overview of Financial System”)
Week 3 (Feb 3-7)	Mishkin Ch. 3 (“What is Money?”) and Ch 22, pp. 532-538 on Velocity of money
Week 4 (Feb 10-14)	Mishkin 4 “The Meaning of Interest Rates and Ch. 5 (“The Behavior of Interest Rates”)
Week 5 (Feb 17-21)	Catch Up and Review
<b>Exam 1 Friday Feb. 21</b>	
Week 6 (Feb 24-28)	Mishkin, Ch. 6 (“The Risk and Term Structure of Interest Rates”)
Week 7 (March 2-6)	Mishkin, Ch 7 (“The Stock Market, the Theory of Rational Expectations, and the Efficient Market Hypothesis,”)
Week 8 (March 9-13)	Mishkin, Chapter 20 (“The Foreign Exchange Market”) and Chapter 21 (“The International Financial System,” pp. 506 (bottom)-512 (top))
Week 9 (March 16-20)	Mishkin, Chapter 9 (“Banking and Management of Financial Institutions”) and Chapter 10 (“Economic Analysis of Financial Regulation”)
<b>SPRING BREAK MARCH 21-29</b>	
Week 10 (March30-Apr 3)	Mishkin, Chapter 11 (“Banking Industry: Structure and Compet.) and Ch. 16 “Central Banks and the Federal Reserve System”)
<b>Exam 2 Friday April 3</b>	
Week 11 (April 6-10)	Mishkin, Chapter 17 (“The Money Supply Process”) and Ch. 18 (“Tools of Monetary Policy”)
Week 12 (April 13-17)	Thomas, Chapter 10 (“Federal Reserve Policy in the Great Depression”) (posted on Canvas).

- Week 13 (April 20-24) Mishkin, Ch. 12 (“Financial Crises”) and Thomas Ch. 2 (“The Nature of Banking Crises”) posted on Canvas
- Week 14 (April 27- May 1) Thomas, Chapter 4 (“Development of the Housing and Credit Bubbles”) and Chapter 5 (“Bursting of the Twin Bubbles”), posted on Canvas.
- Week 15 (May 4-8) Thomas, Chapter 11 (“The Federal Reserve’s Response to the Great Crisis”), posted on Canvas, and Mishkin, Ch. 19 (“The Conduct of Monetary Policy: Strategy and Tactics”)
- Exam 3 Wednesday, May 6 (No Class Friday)**

### 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 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](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.