**Spring 2013 Economics 320 Syllabus**

**Money and Banking (Session 1)**

**California State University, Channel Islands**

**Instructor: Z. John Lu, PhD**

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Office hours: T 9:00am - 10:00am (and sometimes Th 9:00 - 10:00am in addition)

Class time: Class location:

T/Th 10:30-11:45am Bell Tower 1424

Term paper: Tuesday, April 23 (in or before class)

Final exam: Thursday, May 16, 8:00 – 10:00am

Course website: <http://csuci.blackboard.com>

Required reading: Money and Banking by Robert E. Wright [Version 2.0 (2012 by Flat World Knowledge, Irvington, NY].

Recommended but optional reading:

 A Short History of Financial Euphoria by John K Galbraith (1994 by Penguin Books, New York, NY)

Grading system:

Your grade for the course is based on quizzes, term paper, presentation and final exam in the following way:

|  |  |
| --- | --- |
| Task | Percent of grade |
| Quizzes (best 5 scores out of 6 in total) | 40 |
| Term Paper | 25 |
| Group Presentation (content and delivery) | 10 |
| Final exam  | 25 |

The final course grade depends on (1) sum of weighted % you earn from the four tasks (best = 100%); (2) your relative ranking in the class[[1]](#footnote-1). Note that +/- grades are allowed, and I typically assign a median (midpoint) grade of a B-/C+. Although attendance is not mandatory, regular attendance and class participation may help your grade at the “margin”. For example, if you are at the cutoff between a B-/C+, regular class participation may boost your grade to a B- relative to someone who does not attend and participate regularly.

Quizzes:

There are a total of 6 quizzes in this course. I picked the 5 best scores, and together they are worth 40% of the grade. The quizzes are given every 2-3 weeks at the beginning of Tuesday’s lecture.

The quizzes will include BOTH lecture materials and assigned readings covered in the preceding 2 weeks. They will include mostly multiple choice and T/F type of questions, and occasionally short answer questions.

**There will be no make-up quiz.** If you can’t make to at least 3 quizzes, I suggest you do not take this course.

Final Exam:

The final exam will include both multiple choice and short answer questions based on lecture notes and assigned readings in the entire course. It will be cumulative and is worth 25% of the course grade.

**There will be no make-up exam.**

Term Paper:

You are required to write a substantial term paper. Due on April 23, it is worth 25% of the grade. It requires a considerable amount of in-depth research and a good, comprehensive understanding of the financial system, history and institutions, and monetary and regulatory policies in the US and globally. The paper should contain no less than 2,500 words *excluding* References [words in the Executive Summary (no more than 1 page), if applicable, are counted toward the word threshold].

The paper will examine one of several more recent financial crises in the world (you will select from a list provided separately between week 2 and week 3) and compare that to the most recent US financial crisis of 2007-2009. It will examine, compare and contrast the institutional and historical backgrounds, key causes, economic consequences, and policy responses in these 2 crises, and highlight lessons learnt to prevent or reduce the likelihood of future crisis. Concepts, tools, graphs and models introduced in this course must be utilized in your explanation. I am not looking for any perfect answer(s) in the paper, but a well thought-out analysis aided by diligent learning and in-depth (and properly referenced) research.

**There will be no substitute for the term paper.**

Group Presentations:

Students should form a group of 2-3 (no more than 3 per group) members to analyze and present ONE case from a list of cases provided below. The cases, which are articles taken from economic or business journals, discuss various issues related to banking and macroeconomics (domestic and international). *The actual articles will be provided to you electronically by the 3rd week.* You probably will need to do some additional research for the presentation, and please reference your data sources. Each group will present the essence of their findings in a 15 minute PowerPoint presentation (8-10 slides) followed by 5 minute of Q&A from fellow students and the instructor. Though a group project, this task requires significant amount of co-ordination, planning and presentation/communication skills.

The presentations will occur during the last 4 lectures of this course (during week of 04/29 and week of 05/06). You should select and form the group by the 5th week of class (week of 02/18).

**List of cases to select from for group presentation (select one)**:

“QE or not QE? An assessment of the most controversial weapon in the central banker’s armoury.” *The Economist*, July 14th, 2012. (**Note: this is a more difficult case. Group(s) selecting this one will receive extra credit worth up to 3% of course grade.**)

“Regionals Outplay Big Banks: Latest earnings reports illustrate benefits of simpler businesses, shaper focus.” *The Wall Street Journal*, January 18, 2013.

“Mexican Banks: From tequila crisis to sunrise.” *The Economist*, September 22nd, 2012.

“Cambodian Finance: The bank that likes to say less.” *The Economist*, September 22nd, 2012.

The group presentation is mandatory. It is worth 10% of the grade (5% on content and 5% on delivery).

Course Overview:

This course provides a thorough overview of financial institutions and monetary policy in the US. We will consider the effect of money, interest rates, and bonds on various economic indicators. Other major topics include: financial innovations, financial regulations, financial crises, tools of monetary policy, foreign exchange market, and several prominent schools of macroeconomic thoughts.

The main textbook for the course was written by an economic historian, and the recommended secondary textbook was written by one of the most widely published economists in political economy (and an economic adviser to 6 former presidents). It is the intention of the instructor to introduce to students the complexity of the US and global financial systems in a historical and institutional perspective, so that they will develop and acquire sound financial literacy and intuitions. While several commonly utilized theoretical frameworks or models will be discussed, the focus is not on the mechanics, but on the applicability in the real world.

Learning objectives: At the end of this course, students should be able:

• to define money and to understand its use

• to calculate interest rates for simple present value equations.

• to evaluate potential causes for financial crises including the 2007-2009 US subprime crisis

• to understand the importance of regulations in the banking system

• to explain the various functions and roles of the Federal Reserve

• to explain how banks create money without actually printing currency

• to predict how monetary policy influences inflation, output and employment

• to describe various exchange rate systems and the workings of foreign exchange market

Cheating:

Don't cheat. Any case of cheating, including looking at another student’s test booklet while taking an exam will be referred to Judicial Affairs. Plagiarism is cheating also and will be severely penalized. You must properly reference any idea, thought, data, model, or graph in your term paper and presentation.

Working with fellow students on term paper and group presentation is encouraged, but the term paper must be individually written by each student. For students who work together in the same presentation group – the basic analysis, framework, data sources, or references in the paper may be the same, but no two papers should be identically written or a minimum of 10% penalty will be applied to both.

Disability Accommodations**:**

# *Cal State Channel Islands is committed to equal educational opportunities for qualified students with disabilities in compliance with Section 504 of the Federal Rehabilitation Act of 1973 and the Americans with Disabilities Act (ADA) of 1990. The mission of Disability Accommodation Services is to assist students with disabilities to realize their academic and personal potential. Students with physical, learning, or other disabilities are encouraged to contact the Disability Accommodation Services office at (805) 437-8510 for personal assistance and accommodations.*

Course Schedule:

Subject to changes as necessary throughout the semester.

|  |  |  |  |
| --- | --- | --- | --- |
| **Date****(week of)** | **Lecture topic** | **Textbook Reading** |  **Deliverable(s)** |
| 01/21 | Preview of course; pre-test.Introduction to Financial System | Chapter 1, 2 |  |
| 01/28  | Definition of Money, Interest Rate | Chapter 3, 4 |  |
| 02/04 | Economics of Interest Rate Fluctuations | Chapter 5, 6 |  |
| 02/11 | Rational Expectations and Asymmetric Information | Chapter 7, 8 | Quiz 1 (Chap 1-6) on 02/12 |
| 02/18 | Bank Management  | Chapter 9 |  |
| 02/25 | Financial Innovation, Financial Regulation | Chapter 10, 11 | Quiz 2 (Chap 7-9) on 02/26  |
| 03/04 | Financial Derivatives | Chapter 12 | In-Class Movie/Discussion: The Inside Job |
| 03/11 | Financial Crises | Chapter 13 | Quiz 3 (Chap 10-12) on 03/12 In-Class Movie (cont.)/Discussion:The Inside Job |
| 03/18 | Spring Break |  |  |
| 03/25 | Central Bank and the Money Supply Process | Chapter 14, 15 |  |
| 04/01 | Monetary Policy Tools, Targets, and Goals | Chapter 16, 17 | Quiz 4 (Chap 13-15) on 04/02 |
| 04/08 | Foreign Exchange and International Monetary Regimes | Chapter 18, 19 |  |
| 04/15 | Money Demand and the IS-LM Framework (I) | Chapter 20, 21 | Quiz 5 (Chap 16-19) on 04/16  |
| 04/22 | IS-LM Framework (II), Aggregate Demand and Aggregate Supply  | Chapter 22, 23 |  |
| 04/29 | Money-Inflation Link | Chapter 25 | Quiz 6 (Chap 20-23) on 4/30; Group Presentations |
| 05/06 | Rational Expectations II | Chapter 26 | Group Presentations |
| **May 16 (Thurs)****8-10 am** | **Final** | **All Chapters Covered**  |  |

1. I know there might be an incentive for students to “collude” and collectively not study hard, since (you think) your grade is determined based on the relative ranking. This is not only an academic dishonesty, but also an incorrect idea. Your grade depends on BOTH the actual % and the relative ranking. [↑](#footnote-ref-1)