

**Fall 2013 Economics 320 Syllabus**  
**Money and Banking (Session 2)**  
**California State University, Channel Islands**  
**Instructor: Z. John Lu, PhD**

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Office hours: Wed 4:30 – 5:30pm

Class time: Class location:  
Wed 6 – 8:50pm Martin Smith Center 1908

Term paper: Wednesday, December 4 (on or before)  
Final exam: Wednesday, December 11, 7:00 – 9:00pm

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

Required reading: 1) Money and Banking by Robert E. Wright [Version 2.0 (2012 by Flat World Knowledge, Irvington, NY)].  
2) Various cases taken from newspapers (posted online)  
3) Other assigned readings (per instructor discretion)

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 (5), term paper, presentation and final exam in the following way:

Task	Percent of grade
Quizzes (best 5 scores out of 6 in total)	35
Term Paper	25
Group Presentation (content and delivery)	15
Final exam	25

The final course grade depends on (1) sum of weighted % you earn from the five tasks (best = 100%); (2) your relative ranking in the class<sup>1</sup>. Note that +/- grades are allowed, and I typically assign a median (midpoint) grade of a B-/C+. Although attendance is not mandatory, regular

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<sup>1</sup> 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.

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 35% of the grade. The quizzes are given every 2-3 weeks at the beginning of lecture.

The quizzes will include lecture materials and assigned readings in the textbook (not newspaper articles) 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 or before December 4, 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 term paper will examine one of several more recent financial crises in the world (you will select from a list provided below) 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. Although you can discuss, consult and even collaborate with classmates on the paper, each paper must be written individually and identical papers will receive a significant penalty.

You are strongly advised to decide the paper topic by the 4<sup>th</sup> week of this course (week of 09/19).

Topics are to be selected from the followings:

1. [http://en.wikipedia.org/wiki/1994\\_economic\\_crisis\\_in\\_Mexico](http://en.wikipedia.org/wiki/1994_economic_crisis_in_Mexico) (Mexico)

2. [http://en.wikipedia.org/wiki/Swedish\\_banking\\_rescue](http://en.wikipedia.org/wiki/Swedish_banking_rescue) (Sweden)

3. [http://en.wikipedia.org/wiki/Japanese\\_asset\\_price\\_bubble](http://en.wikipedia.org/wiki/Japanese_asset_price_bubble) (Japan)

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

#### Group Presentations:

Students are required to form a group of 2-3 (no more than 3 per group) members to analyze and present ONE case from the list of cases provided online. The cases are grouped by broad topics (also provided online). You must read *all* articles in the list before deciding which one your group wants to present on. The cases are articles taken from economic or business journals, and they discuss various issues related to banking and financial sectors in the US and globally. They are part of the *required* (i.e., not optional) readings of this course. Select the case which interests you the most, not the shortest or simplest – most cases are fairly comparable in length and depth.

In addition to properly reference materials covered in this course (concepts, models, tools, etc.), you 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 10-12 minute PowerPoint presentation (8-10 slides) followed by 3-5 minute of Q&A from fellow students and the instructor. Though a group project, this task requires a significant amount of co-ordination, planning and presentation/communication skills.

The presentations will occur during the last 2 lectures of this course (during week of 11/25 and week of 12/02). You should select and form the group by the 4<sup>th</sup> week of class (week of 09/19). All students are required to attend all presentations (attendances will be taken during those lectures), whether your group is presenting on that day or not.

This is a rather significant deliverable for this course, and counts for 15% of the grade. Your early attention to the matter will save you substantial time and pain downstream.

#### 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. The *required* selected cases, taken mostly from the Wall Street Journal (US edition), will provide you with opportunities of applying the knowledge learnt throughout the course to understand real world events in the banking and financial sectors.

### Learning objectives:

Program Learning Goals: These are the skills we try to help all students build in all MVS courses

1. Critical Thinking
2. Oral Communication
3. Written Communication
4. Collaboration
5. Conduct (Ethics)
6. Competency in Discipline

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

- to define money and to understand its use (*corresponding to program learning goals 1, 3, 6*)
- to calculate interest rates for simple present value equations (1, 3, 6)
- to evaluate potential causes for financial crises including the 2007-2009 US subprime crisis (1-6)
- to understand the importance of regulations in the banking system (1-6)
- to explain the various functions and roles of the Federal Reserve (1, 2, 4, 6)
- to explain how banks create money without actually printing currency (1, 2, 3, 6)
- to predict how monetary policy influences inflation, output and employment (1, 2, 3, 6)
- to describe various exchange rate systems and the workings of foreign exchange market (1, 2, 3, 4, 6)

### 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.

<b>Date (week of)</b>	<b>Lecture topic</b>	<b>Textbook Reading</b>	<b>Other Assignments &amp; Deliverable(s)</b>
08/26	Preview of course; pre-test. Introduction to Financial System	Chapter 1, 2	
09/02	Definition of Money, Interest Rate	Chapter 3, 4	
09/09	Economics of Interest Rate Fluctuations	Chapter 5, 6	Quiz 1 (Chap 1-4)
09/16	Rational Expectations and Asymmetric Information	Chapter 7, 8	Term paper topic selection; Group formation
09/23	Bank Management	Chapter 9	Quiz 2 (Chap 5-8)
09/30	Financial Innovation, Financial Regulation (I)	Chapter 10, 11	Cases assigned in category "Bank Management"
10/07	Financial Regulation (II), Financial Derivatives	Chapter 11, 12	
10/14	Financial Crises (I)	Chapter 13	Quiz 3 (Chap 9-11); In-Class Movie/Discussion: The Inside Job
10/21	Financial Crises (II), the Central Bank (I)	Chapter 13, 14	
10/28	The Central Bank (II) and the Money Supply Process	Chapter 14, 15	Quiz 4 (Chap 12-14)
11/04	Monetary Policy Tools, Targets, and Goals	Chapter 16, 17	Cases assigned in category "Monetary Policy"; Group presentation topic selection
11/11	Foreign Exchange and International Monetary Regimes	Chapter 18, 19	Quiz 5 (Chap 15-17); Cases assigned in category "Foreign Currencies and International Monetary Regimes"
11/18	Theories of Demand for Money	Chapter 20	Quiz 6 (Chap 18-19); Group presentation order
11/25 (Yes, class will be held on 11/27)	Group Presentations	Assigned readings online	Slides for presentations;
12/02	Group Presentations	Assigned readings online	Slides for presentations; Paper due December 4 (on or before)
<b>Dec 11 (Wed) 7-9 pm</b>	<b>Final</b>	<b>All Chapters Covered</b>	