

Money and Banking

Objectives:

Course Description and Student Learning Outcomes-

This course is an introduction to the U.S. monetary and banking system. Course topics include: financial instruments and their purposes; aspects of portfolio management and people's demand for financial assets; interest rates and their determination; the operations and behavior of banks and other financial institutions, including mutual funds; the money-creation process; the effect of money and credit on production, employment, and inflation; the role of the Federal Reserve as the central bank in the U.S. banking system; the history of central banking in the U.S.; and international dimensions of monetary policy and financial markets.

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

- to define money and to understand its use
- to calculate interest rates on bonds
- to predict how interest rates change in response to outside economic changes
- to explain how banks use a balance sheet
- to explain important banking regulations in the US
- to explain how the Federal Reserve System functions
- to explain how money is created by banks
- to explain how the foreign exchange market and aspects of the international financial system work
- to predict how monetary policy influences inflation, production and employment

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Required Text: The Economics of Money, Banking and Financial Markets by Frederic S. Mishkin (8th edition, Pearson, Addison, Wesley, 2007)

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

Course Outline and Chapter Assignments

Lecture Schedule

I. Introduction to Money and Banking

Understanding the role of finance in the economy. The definition of money and an overview of the financial system.

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| Jan. | 25 | Ch. 1 - Why Study Money, Banking and Financial Markets? |
| | | Ch. 2 - An Overview of the Financial System. |
| Feb | 1 | Ch. 3 - What is Money? |

II. Financial Markets and Understanding Interest Rates

How to calculate and analyze interest rates. Interest rates in a theory of asset demand. Why interest rates rise and fall. The significance of the term structure of interest rates and the risk structure of interest rates.

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| Feb | 1 | Ch. 4 - Understanding Interest Rates. |
| | 8 | Ch. 5 - The Behavior of Interest Rates. |
| | | Ch. 6 - The Risk and Term Structure of Interest Rates. |
| | 15 | Furlough Day |
| | 22 | Ch. 7 - The Sock Market, the Theory of Rational Expectations. |
| | | First Mid-Term Exam (Ch.1-6) |

III. Financial Institutions

Analysis of the activities of bank firms and the banking industry. Problems of bank management. Insights provided by duration analysis. An explanation of arbitrage, speculation, hedging and the use of financial futures markets. The continuing crisis in banking and the role of regulation in controlling the banking industry.

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| March. 1 | Ch. 8 - An Economic Analysis of Financial Structure. |
| | Ch. 9 - Banking and the Management of Financial Institutions. |
| 8 | Ch.10 - The Banking Industry. |
| | Ch.11 - Economic Analysis of Banking Regulation. |
| 22 | Spring Break |
| 29 | Second Mid-Term Exam (Ch. 7-11) |