

**ECONOMICS 444: Summer 2009**  
**MONEY AND BANKING**

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**TEXT:** L.M. Ball, Money, Banking & Financial Markets [1e]  
**Ball webpage:** <http://bcs.worthpublishers.com/ball/>

**COURSE OVERVIEW:** The course focuses on the role and function banking and monetary policy. Topics considered include operation of financial institutions under asymmetric information, structure of banking industry, money creation process, central bank operation and monetary policy under different economic conditions and central bank targets.

**COURSE UPDATE:** Currently a world-wide financial crisis is underway. The causes and consequences of this crisis are controversial as are various solutions. Information is fundamental to understanding any aspect of the crisis. To that end, look at Wikipedia, “Financial crisis of 2007–2009” [http://en.wikipedia.org/wiki/Financial\\_crisis\\_of\\_2007%E2%80%932009](http://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932009) and begin to review the articles and columns found at the NY Times, “Credit Crisis — The Essentials” [http://topics.nytimes.com/topics/reference/timestopics/subjects/c/credit\\_crisis/](http://topics.nytimes.com/topics/reference/timestopics/subjects/c/credit_crisis/)

**PROCEDURES:** All assignments are announced and returned in class. They are considered due when collected and cannot be submitted by email. Under certain conditions, assignments can be submitted through the Economics mailbox in the School of Business reception area, third floor at Riverpoint.

Email is the normal out-of-class communication method. Be prepared to undertake assignments as scheduled. Do not request nor do not expect special consideration for events unrelated to the class or “Acts of God.”

Written work should reflect mastery of course concepts. It is graded on the basis of content and completeness as well as neatness, grammar, spelling and sentence construction. It should reflect individual student effort. Work that is copied, plagiarized or submitted without adequate indication that it is the work of others will be graded zero.

Classroom policies: turn off cell phones; liquid drinks only; late arrivals or early departures should not be disruptive.

All retained course work will be destroyed three weeks after the final examination.

**TESTS (60%):** Two tests, a midterm and final, will cover major course concepts. The tests, based on lectures, reading and homework assignments, will consist of short answer questions and problem applications. Study questions will be distributed before each test.

**HOMEWORK (20%):** Homework, designed to prepare for tests and to maintain course engagement and currency, is based on handouts and textbook end of chapter problems.

Homework grading is selective with emphasis on work and effort using the following scale: 2 = Correct and complete, 1 = Incomplete, errors and omissions; 0 = Incorrect, not trying. Small, positive single digit number = Name on paper or late.

**RESEARCH: (20%):** “The Financial Crisis in (pick some nation other than current US). Candidates can include Belgium, Iceland, Ireland, Latvia, Russia, Spain and Zimbabwe. An earlier crisis can be selected: US, Mexico, Japan or Sweden. Consider causes, consequences and solutions. Conclude with a discussion of “lessons” learned and preventative actions. Length: 8 to 10 pages, with additional bibliography. Avoid elaborate tables, quotes and citations. More later.

Extra Reading Credit: (0 to 3 points, combo 0 to 4 points) Robert Bruner and Stan Carr, “The Panic of 1907.” Have we learned anything in the last 100 years? Charles Morris, “The Trillion Dollar Meltdown” How did it happen? The books are in paperback and can be purchased at local bookstores or from Amazon.com, Powells.com or alibris.com [Start looking early.]

### **FINAL GRADE DETERMINATION:**

Course Grade =  $\{6*\text{Test Ave} + 2*\text{Homework Ave} + .2*\text{Research Ave} - 5\} + \text{extra credit}$ .

Example: Test Ave = .78; Homework Ave = .86; Research Ave = .82; Extra credit = 2.

Grade =  $\{6*.78 + 2*.86 + 2*.82 - 5\} + .2 = \{4.68 + 1.72 + 1.64 - 5\} + .2 = 3.0 + .2 = 3.2$ .

**COURSE OUTLINE AND ASSIGNMENTS:** Lecture material covered will depend on class progress and interest as well as available time. An approximate outline with Ball chapter text numbers follows.

#### 1. FOUNDATIONS (Chapters 1-2, 18)

Overview, financial system, central banks  
Financial crisis

#### 2. FINANCIAL MARKETS (Chapters 3-6)

Asset prices, interest rates, determination; term structure; risk; efficient markets, foreign exchange

#### 3. BANKING (Chapters 7-10)

Asymmetric information

Test (July 15 or 20)

Bank balance sheet, management; banking industry; regulation; CAMELS

Read (technical details can be skimmed): FDIC Risk Management Manual of Examination Policies, Section 1.1 - Basic Examination Concepts and Guidelines, “Rationale of Bank Examinations,” <http://www.fdic.gov/regulations/safety/manual/section1-1.html#rationale>

#### 4. MONEY AND THE ECONOMY (Chapters 11-14)

Money supply, money creation, business cycles, inflation/deflation

Read: Federal Reserve Board, Remarks by Governor Laurence H. Meyer, April 2, 1998, “Come with Me to the FOMC.”

<http://www.federalreserve.gov/boarddocs/speeches/1998/199804022.htm>

#### 5. MONETARY POLICY (Chapters 15-16)

Policies, strategies and institutions

Fed system, tools, balance sheet

Test (Aug 12) all assignments due.