

**SACRAMENTO STATE UNIVERSITY
DEPARTMENT OF ECONOMICS
Spring 2010**

ECON 135: MONEY AND BANKING

Class Information

Spring 2010 Session: TuTh 3:00 pm – 4:15pm, Mariposa Hall 1001
Lecture Dates: Jan. 25, 2010 – May 14, 2010

Professor

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Office Hours: MW 2:00 pm - 3:30pm or email to make an appointment

Course Description:

This course focuses on the study of financial markets and institutions, including in particular the study of money and banking. During the course of the semester, economic tools and concepts will be developed to help students organize their thinking about financial assets and markets, and about the varied roles of key financial market participants. International financial markets will be mentioned and the foreign exchange market will be emphasized.

Learning Objectives:

This course is designed to provide students with an understanding of how the financial markets function, how actions of commercial banks as well as the decisions of Central banks affect the economy and how money (supply) is the best tool a Central bank has to fix an economy.

At the end of the course, you should be able to:

- i. understand the importance of interest rates and use them to find the market value of bonds and stocks.
- ii. understand how important it is to have financial markets be “efficient”
- iii. understand how the Federal Reserve System works and how it is different from other central banks around the world
- iv. understand what caused the recent financial crisis and analyze whether the monetary policies designed to fix the crisis are helping or not.

Textbook Information:

“Financial Markets & Institutions” by Frederic S. Mishkin and Stanley G. Eakins, 6th Ed.
Pearson Prentice Hall Press, 2009

ISBN-13: 978-0-321-37421-9

ISBN-10: 0-321-37421-5

The textbook is required for this course and it is available for purchase in the campus bookstore.

Grading:

Problem Sets: 20%

Midterm: 35%

Final Exam: 45%

Actual letter grade you earn in this course will be based on one of the two grading methods: 1) a weighted average of the grades from all exams (midterm and the final exam) administered throughout the semester (weights specified above) or 2) the score from your final exam counts for 80% of your final grade in the class. As an act of generosity characteristic of Turkish people, **you will be given the higher of the two grades. You have to be present at all exams (both midterm and the final exam) to benefit from this grading scheme.** In the event that you miss any of the exams due to a legitimate reason (as specified on the next page), you forfeit your right to this grading scheme and the weight of the exam you miss will be added on the weight of your final exam. In that event, your grade will be calculated using method (2) only. In terms of letter grades, a grading scale will be determined *after the final exam*. This scale will probably not resemble the 10-point scale many of you are used to (e.g., 90-100% is some sort of A, 80-89% is some sort of B, etc...) because I curve the grades in every class I teach. I will provide more information throughout the semester about how to interpret your homework and exam scores. Also note that there is no class on the exam day. All exams are in-class.

Other Important Information:***Problem Sets:***

There will be several problem sets routinely posted on the class website. You are responsible for downloading them and turning in the completed assignment in class on the due date. **NO LATE PROBLEM SET WILL BE ACCEPTED.** I give you one “free-pass” with your problem set scores; I will drop your lowest one at the end of the semester.

Questions from each problem set will be randomly chosen by me and they will be the only ones graded. Your problem set score will depend on the questions graded, not on your overall performance for the whole problem set.

Exams:

There will be one midterm and one final exam. The midterm exam will be **on March 11th**, it will be held in class during scheduled class time. The *comprehensive* final exam will be on **Tuesday, May 18th from 3:00pm to 5:00pm**. If you miss the midterm due to a legitimate reason (illness documented by a doctor, family emergency such as loss of a family member, university related travel, etc.) and if you notify me of that fact **24 hours prior to the exam**, the weight of the midterm will be added to the weight of your final exam. I will not give out any make-up midterms and you **can not** miss the final exam.

You are responsible for bringing a scantron form (882-E), a pencil, and a non-cell-phone calculator to all exams. Exams are all closed-book, closed-note, and closed-friend/neighbor.

Also note that you have one week after the return of your graded midterm to appeal for a grade change. I will only entertain appeals if they are due to a technical problem related to your midterm.

Online Investment Game:

We will play an online investment game during the course of the semester. Participation is voluntary and those who participate and turn in a summary of their performance at the end of the semester will have their second lowest problem set grade dropped as well. Even though investment is beyond the scope of this class, this game will provide the required incentive for its participants to stay on top of the news in the financial markets. More detailed information about how to join the online investment game will be handed out during the second week of class.

Attendance:

Attendance at lecture is left up to your discretion, although I obviously believe that coming to class will have a positive effect on how much you learn and your final grade. I will not take roll.

If you choose to attend, I do request that you be on time and also do not leave the class room before the lecture is over. If you are not on time or if you leave early (or if you don't come to class at all), you are likely to miss important material. It is **your responsibility** to get all the material you miss. I do not hand out or lend lecture notes under any circumstances, so I recommend you find a study-buddy in the class. Any handouts distributed in class will also be posted on the class website, so check there frequently.

Advice:

Every student in class has a different level of academic preparedness for this class or for college in general. On top of that, activities outside the classroom might also be very taxing on your time. I plan to make some general remarks in terms of how to succeed in this class and it is up to you to follow my advice or not.

First of all, realize that the amount of time you put in a class is not always highly correlated with your final grade in the class. Some students may study for an hour a week and still get an A in the class and others spend 10 hours a week studying and may still barely pass. It is up to you to realize how much effort you should put into this class to walk away with the grade you desire. **Do not assume** that studying many hours qualifies you for a good (or even passing) grade.

My general advice for doing well in a class is as follows:

Come to class. Even if you feel like you learn better when you study the material by yourself, coming to class familiarizes you with the topics I deem more important. I am more likely to test you on topics I care about.

Work in groups. Best way to test whether you have learned a material is to try to teach it to someone else. Working in groups allows you to figure out which parts of the material you may need to pay more attention to. Group study is useful but make sure you do (and turn in) your own work.

Get your hands dirty. Do not assume that you can learn how to solve a problem or how to draw a graph by just watching me do it on the board. Get your hands dirty and make sure you work out those problems by yourself and that you draw those graphs perfectly. Setting aside time to solve extra questions (not just looking at their answers) is also useful.

Be proactive. When you begin to feel lost, contact me. Come talk to me after class, stop by my office or simply send me an email. This is a crowded class and I can't always detect who is feeling lost and who is not. I can only help you if you ask for it.

And finally,

Do not cheat. Neither of us wants to have to deal with this situation. If you cheat, I will assume you know zero and that is precisely the grade you will get.

Tentative Course Outline¹:

1. Introduction

- Why Study Financial Markets and Institutions? (chapter 1)
- Overview of the Financial System (chapter 2)

2. Interest Rates and Rational Expectations Theory

- Theory of Interest rates (chapters 3-4)
- Risk and Term structure of interest rates (chapter 5)
- The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis (chapter 6)

3. The Fed and the Monetary Policy

- The Federal Reserve System (chapter 7)
- Tools, Conduct and Analysis of Monetary Policy (chapter 8)

4. Financial Markets

- The Money Markets (chapter 9)
- The Bond Markets (chapter 10)
- The Stock Market (chapter 11)

¹ I reserve the right to change the order or the content of this outline at anytime throughout the semester.

- The Mortgage Markets (chapter 12)
- The Foreign Exchange Market (chapter 13)
- The International Financial System (chapter 14)

5. *Financial Institutions (Time Permitting)*

- Why do financial institutions exist (chapter 15)
- Risk Management in Financial Institutions (chapter 24)
- Banking Industry: Structure and Competition (chapter 18)