

Econ 308: Money and Banking

Fall 2018

1. Contact Information

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2. Class Time and Location

Regular lectures: Monday and Wednesday, 3:30 to 4:50 PM, Annenberg Hall G21

TA session: Friday, 3:30 to 4:50 PM, Annenberg Hall G21

No class on Wednesday, November 21.

3. Prerequisites

Prerequisites are Econ 310-1, Econ 311, and Math 220 (or comparable background).

4. Course Overview

The course examines money, banking, and financial markets in the modern economy. It starts with a close look at the details of money and monetary policy today: what money is, what central banks do, and why it matters for economic outcomes. We'll contrast the current environment, some of which evolved recently in response to the financial crisis and recession, with earlier monetary frameworks—each of which eventually collapsed, sometimes with catastrophic consequences.

In the second part of the course, we'll broaden our purview, looking at the structure of financial flows and intermediation in the economy as a whole. We will start by studying fixed income and equity markets, and then move to banking, covering banks' evolving structure and role, as well as the matching response of financial regulation.

5. Textbook

A useful supplementary text for the course will be *The Economics of Money, Banking, and Financial Markets*, by Frederic S. Mishkin (any of the 10th through 12th editions).

Since money and banking have changed rapidly in response to recent events, in a way that isn't really covered by *any* textbook (even Mishkin's newest edition), this will only be used as a resource for selected readings, not as a primary text covering the material of the class.

Various other readings and materials will also be posted.

6. Evaluation

The course grade will be based on problem sets (25%), one midterm exam (25%), and a final exam (50%).

The **midterm exam** is scheduled for **Monday, November 5**, from 3:30 to 4:50 PM, in the usual classroom.

The **final exam** is scheduled for **Monday, December 10, from 3:00 to 5:00 PM**, in the usual classroom. *The final exam will be cumulative (in the sense that it will include questions on material covered throughout the entire course).*

All exam dates are fixed and not negotiable. If you miss the midterm, *have notified me in advance, and have a legitimate excuse (e.g. a documented medical issue)*, the weight of the midterm will be shifted to the final exam for computation of the course grade. If you miss the final, you will not receive credit for the class.

7. Problem Sets

As noted above, problem sets will account for 25% of the course grade.

There will be approximately 5 problem sets. The due date and time will be specified on the first page of each problem set, and problem sets must be handed in on time to receive credit.

Problem sets will sometimes require working with actual data, using Excel or similar programs (or languages like R and Python for any students that prefer).

All problem sets can be prepared in teams of up to 3 members. *Each team can turn in just one copy of the assignment; please make sure you write the names of all team members when you turn them in.* Students are encouraged to work together in teams.

8. Course Outline

The following is a rough outline of course and lecture content.

Lecture 1. Introduction.

Lectures 2-4. Money and the mechanics of monetary policy. What is money? Its different functions: unit of account, medium of exchange, store of value. How central bank balance sheets have changed over time, and why central banks are so important despite having such tiny balance sheets compared to the financial system as a whole. The evolving mechanics of monetary policy implementation. Changes in payment technology and money demand.

Lectures 5-7. Impact of monetary policy and interest rates on the economy: the “monetary transmission mechanism”. Objectives of monetary policy, and different policy regimes: money targets, exchange rate pegs, inflation targets, etc. Recent crisis associated with the zero lower bound; quantitative easing, forward guidance, and negative interest rates as possible solutions.

Lectures 8-9. How we got here: the history of money and the long, painful path leading up to our current monetary regime. Brief discussion of ancient and medieval money and coinage. The rise of the gold standard and central banking, the collapse of the gold standard in the Great Depression, the postwar Bretton Woods regime and its collapse, worldwide inflation and floating exchange rates, and finally worldwide disinflation and near-zero interest rates.

Lectures 10-11. Fundamentals of financial intermediation. Why do financial assets and liabilities exist, and what determines who trades and owns them? What are the biggest components of financial flows in practice?

Lectures 12-13. Interest rates (in more detail). What do fixed income instruments look like, and how are yield, duration, etc. measured? What determines equilibrium interest rates and their term structure?

Lectures 14-15. Equity markets. Valuation, efficient market hypothesis, CAPM and anomalies. Equity premium puzzle. Big recent developments like the rise of indexing, tax-advantaged accounts, growing international diversification, etc.