

Economics 275: Money and Banking (Finance and Development)
Fall 2013
Kenyon 131, M&W 10:30-11:45

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Office Hours: M&T 3-5:00pm
and by appointment

Overview

Money and Banking covers the structure of financial markets, their role in the provision of money and credit, and the overall importance of these institutions in the economy. We will discuss money, interest rates, central banks, monetary policy, financial market structure, bank operations and regulation, and the structure of the banking sector. We will also cover financial crises and policy responses. The goal is to provide a deeper understanding of the structure of financial markets, reasons why it is optimal for these markets to be well-functioning, and key barriers to this optimal outcome. Emphasis will be placed on analyzing the relationship between finance and development at both the macro and micro level. At the macro level we will discuss why well developed financial markets are important for economic growth and the conditions under which financial market development occurs. At the micro level we will discuss the availability of financial market instruments to poor households and why access is important to reducing poverty.

Prerequisites

Econ 100 and 101. From macro it is expected that you have seen money, banks, the structure of the Fed, and the tools of monetary policy. We will review this material, but it should be a review rather than a learning experience. From micro it is expected that you have seen fixed costs, economies of scale, and asymmetric information.

Textbooks/Readings

The main texts for this course are:

- 1) The Economics of Money, Banking and Financial Markets by Frederic Mishkin, 9th edition (includes new information on Financial Crises and the Subprime Meltdown)
- 2) Saving Capitalism from the Capitalists by Rachuram G. Rajan and Luigi Zingales
- 3) The Economics of Microfinance by Beatriz Armendariz de Aghion and Jonathan Morduch (A&M), 2nd edition

There also will be numerous other readings. Links will be on Moodle.

Requirements:

To be as fair and impartial as possible I base grades on students' knowledge and understanding of the material as demonstrated through work completed during the course. There will be no opportunities for extra credit. If at any point during the semester you face circumstances which prevent you from attending lecture and completing work on time and to the best of your ability, please contact me as soon as possible. Contacting me after the course is over is unhelpful as there is little that can be done after the fact.

Breakdown of the Final Grade is as follows:

Problem Sets	31%
Take Home Midterm	25%
Group Presentation	10%
Take Home Final Exam	30%
Class Participation	4%

You are accountable for material presented in class. I encourage to you get to know someone else in the class, so that if you are unable to attend one or several lectures you can copy the notes. My notes will not be made available.

Problem Sets

There will be six problem sets during the course, which together will account for 31% of the total grade. I want you to work in groups for the problem sets. Groups can be as large as 2 people. You may talk with members of other groups, but each group must turn in an original problem set. If two groups turn in the same answer for a question, I will divide the total points evenly across the groups (each group will get half credit for the question).

Problem sets will be handed back the class after you turn them in. The policy for late problem sets is as follows:

Same day anytime after class: 1/3 off

Any later: no credit

There will be no exceptions for late problem sets (unless you have a documented emergency). If you cannot make it to class to turn in your problem set please email it to me, leave it in my mailbox in the economics department office or leave it under my office door.

Note: Although I will try to adhere to the schedule outlined in the syllabus, we may deviate from the dates listed below. Please adhere to the due dates listed on the problem sets that I hand out in class and post on Moodle.

Exams

There will be two exams, a take-home midterm and a take-home final. The midterm will account for 25% of the final grade. It will be distributed Saturday, October 26th at 9am and is due Monday, October 28th in class. The final will account for 30% of the final grade. It will be distributed on December 16 and must be turned by December 18, the third day of exam period. This date is set by the college and is not flexible. Late exams will result in a loss of 50% of total points gained.

You can use all notes, books, solution sets for the exams. The one thing you cannot use is each other. You may not discuss or work on the exam with anyone. Violations of this constitute cheating and will be brought to the Dean of Studies office for review by the Academic Panel. Finally, if your answers look strikingly similar to any solution set answers I will take it to the Dean of Studies office for review by the Academic Panel. This is plagiarism, constitutes academic dishonesty, and will be dealt with accordingly.

Make-up Exams:

A student will be eligible to take a make-up exam only if (1) the student is absent from the original exam because of one of the legitimate causes listed in the Catalog (2) furnishes documentary support for the assertion that the absence resulted from one of these causes. When a make-up exam is warranted, the student is to notify me without any delay. If a student also misses the make-up exam, then the weight that would have been given to that exam will be assigned to the weight used for that student's final exam. If you fail to take one of the exams and are not eligible for a make-up exam, you will receive a zero score. You cannot choose to have the other exam weighted more heavily in order to adjust for the missed exam.

Class Participation

For some topics I will require you to prepare material for class (for example, reviewing the main tools of monetary policy). For others I will ask you to do reaction pieces to specific reading. The goal is to encourage greater participation and discussion in class.

Group Presentations

There are a number of topics that you will find interesting and that we will not have time to cover. As such, I want you all to have the opportunity to work with others to research a particular topic and present your results. In addition, working in groups and presenting are skills that are needed in most jobs and ones that are worth cultivating. I want to stress that this is a collaborative effort. The ability to receive and give constructive criticism is an invaluable skill that will improve your work and help you in many professional environments. For this reason I have built it into the presentations. Groups should be comprised of 3 people. You should choose groups based on interest in a topic. I will help facilitate the matching process.

Presentation

The presentation should last 20 minutes. This is a challengingly short amount of time, and thus I will assign each group another group which is responsible for watching and giving feedback on the presentations prior to the final one in class. It will be obvious in the final presentation if this step has been skipped. Your grade will be based on the presentation and on your person write-up of the presentation. The write-up is a 500 word explanation of the topic of the presentation and its relevance to the course.

Tentative Timeline

Stage 1: Form Groups (before Fall Break)

Stage 2: Coffee at the Krafted Cup with Prof. Pearlman to discuss topics (10/28-30)

Stage 2: Outline due (11/15)

Stage 3: Feedback from Second group due (before presentation)

Stage 4: Presentations (last two weeks of class 12/2-9)

Academic Integrity

All work on problem sets, papers, and exams must be your own. If you use pieces of others' writing, from books, articles, or papers you must put them in quotations and cite the source. Failure to do this means you are trying to pass off someone else's work as your own. This is plagiarism, and any suspected cases will be brought to the Dean of Studies for review by the Academic Panel. If you have questions about the appropriate way to use material, please

consult Vassar's *Originality and Attribution: A Guide for Student Writers at Vassar College*, which is on the Dean of the College and the Dean of Studies websites, or speak with me.

Academic Support

"Academic accommodations are available for students registered with the Office for Accessibility and Educational Opportunity. Students in need of ADA/504 accommodations should schedule an appointment with me early in the semester to discuss any accommodations for this course that have been approved by the Office for Accessibility and Educational Opportunity, as indicated in your AEO accommodation letter."

Course Outline**1. Introduction and Background**

<u>Dates</u>	<u>Topic</u>	<u>Reading</u>
9/4	Introduction to Financial Markets	Mishkin Ch1 & 2
9/9	Introduction to Financial Markets: Financial Disintermediation <i>Problem Set 1 handed out</i>	Miskin Ch.2
9/11-16	Money & How Banks Create Money	Mishkin Ch3 The Economist. 2002. “ <i>Jitterbugs: Gold in Japan</i> ”
9/18-23	Central Banks and Monetary Policy <i>Quantitative easing</i>	Mishkin Ch13 &14 Morgenson, Gretchen. 2010. “ <i>So That’s Where the Money Went</i> ” New York Times. Dec. 4. Rogoff, Kenneth. 2013. “ <i>The Federal Reserve In a Time for Doves</i> ” Project Syndicate, Aug. 20 Feldstein, Martin. 2013. “ <i>Decoding Bernanke.</i> ” Project Syndicate, July 29, 2013
9/25	Interest Rates and Yield to Maturity <i>Problem set 1 due</i> <i>Problem set 2 handed out</i>	Mishkin Ch.4
9/30	Calculating Yields	Mishkin Ch5

2. The Banking Sector

10/2	Financial Structure <i>Problem Set 2 due</i> <i>Problem Set 3 handed out</i>	Mishkin Ch. 8 World Bank Finance For All, Ch. 1 (pg. 31-33)
10/7	Information Costs	Mishkin Ch. 8 Maurer, Noel and Stephen Haber. 2005 “ <i>Related Lending and Economic Performance: Evidence from Mexico</i> ”
10/9	Bank Operations & Management	Mishkin Chapter 10 The Economist “ <i>Blocked Pipes: When Banks Find it Hard to Borrow, So Do the Rest of Us</i> ” Oct. 2, 2008 “ <i>Warren Buffett to Invest \$5 billion in Bank of America</i> ”, Reuters. Aug. 25, 2011
10/14-16	NO CLASS FALL BREAK	
10/21-23	Microfinance <i>Problem Set 3 due (10/21)</i> <i>Problem Set 4 handed out</i>	A&M Ch. 1-3, 4-5

10/26	MIDTERM emailed 9am	
10/28	Bank Regulation Midterm due in class	Mishkin Ch. 11 The Economist “ <i>Super Model</i> ” Aug. 19,2010
10/30	Banking Industry: Structure	Mishkin Ch. 12
11/4	NO CLASS	

3. Financial Crises and Policy Responses

11/6	Financial Crises: The S&L Crisis	Mishkin Ch. 9
11/11	The Subprime Crisis <i>Problem Set 4 due</i> <i>Problem Set 5 handed out</i>	Mishkin Ch. 9 Brunnermeier, Markus. 2009. “ <i>Deciphering the Liquidity and Credit Crunch 2007-2008</i> ” Journal of Economic Perspectives Tett, Gillian. “ <i>Loss Through Creative Destruction</i> ” Financial Times, March 9, 2009 Congressional Oversight Panel. Summary of Final Report on TARP. March 16, 2011 Zingales, Luigi. “ <i>Overall Impact of TARP on Financial Stability</i> ” Testimony to the Congressional Oversight Panel
11/13	Financial Crises: General Trends	Mishkin Ch. 9, Ch. 11 Reinhart, Carmen and Kenneth Rogoff. 2008. “ <i>Is the 2007 U.S. Sub-Prime Financial Crisis So Different? An International Historical Comparison</i> ” AER: Papers and Proceedings Johnson, Simon & Peter Boone. 2009. “ <i>The Next Financial Crisis</i> ” The New Republic
		<u>Regulation</u> Admati, Anat et. al. “ <i>Much More Bank Capital is Needed and Is Not Socially Costly</i> ” Financial Times Editorial Nov. 9, 2010 Nocera, Joe “ <i>Banking’s Moment of Truth</i> ” NYTimes Editorial June 20, 2011 Morgenson, Gretchen. “ <i>Bankers Are Balking at a Proposed Rule on Capital.</i> ” New York Times, July 13, 2013 Johnson, Simon. “ <i>Banking Reform’s Fear Factor</i> ” Project Syndicate. July 15, 2013 Johnson, Simon. “ <i>Sadly, Too Big to Fail Is Not Over.</i> ” NYTimes, Economix. Aug. 1, 2013

Mortgages

McLean, Betheny. 2011. "Who Wants a 30 year Mortgage?" New York Times Op-Ed.

4. Finance and Development: The Big Picture		
11/18	Financial Development and Growth	Levine, Ross. 1997. "Financial Development and Economic Growth: Views and Agenda" Journal of Economic Literature Rajan and Zingales Ch.1
11/20	Financial Development, Growth & Welfare <i>Problem Set 5 due</i> <i>Problem Set 6 handed out</i>	Rajan and Zingales Ch. 2 - 5
11/25	How Financial Development Happens: Taming the Government	Rajan and Zingales Ch. 6 Haber, Stephen. 2008. "Political Institutions and Financial Development: Evidence from the Political Economy of Bank Regulation in Mexico and the United States" Ch.2 in <u>Political Institutions and Financial Development</u>
11/27	How Financial Development Happens: Taming Incumbents	Rajan and Zingales Ch. 7 & 8 Rajan and Zingales Ch. 9 & Ch.10 (pg 219-224) Philippon, Thomas and Ariell Reshef. "Wages and Human Capital in the U.S. Financial Industry: 1909-2006." Quarterly Journal of Economics. forthcoming
5. Presentations		
12/2-9	Group Presentations <i>Problem Set 6 due (12/10)</i>	
