Economics 275: Money and Banking (Finance and Development)
Fall 2011
Kenyon 217, M&W 10:30-11:45

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Office Hours: M&W 1:40-3:00pm 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 Rachulam 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** 8%
- **Take Home Final Exam** 32%
- **Class Participation** 4%

You are accountable for material presented in class. I encourage you to 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**

The 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 29th at 9am and is due Monday, October 31 in class. The final will account for 32% of the final grade. It will be distributed on December 15 and must be turned by December 17, 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 the 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 challenging handful 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.

Tentative Timeline
Stage 1: Form Groups (before Fall Break)
Stage 2: Coffee at the Krafted Cup with Prof. Pearlman to discuss topics (11/3-4)
Stage 2: Outline due (11/21)
Stage 3: Feedback from Second group due (before presentation)
Stage 4: Presentations (last two weeks of class 12/5-12)

Academic Support
"Academic accommodations are available for students with disabilities who are registered with the Office of Disability and Support Services. Students in need of disability accommodations should schedule an appointment with me early in the semester to discuss any accommodations for this course that have been approved by Office of Disability and Support Services, as indicated in your DSS accommodation letter."
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<thead>
<tr>
<th>Dates</th>
<th>Topic</th>
<th>Reading</th>
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<tbody>
<tr>
<td>8/31</td>
<td>Introduction to Financial Markets</td>
<td>Mishkin Ch1 &amp; 2</td>
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<tr>
<td>9/7</td>
<td>Introduction to Financial Markets: Financial Disintermediation</td>
<td>Miskin Ch.2</td>
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<td>9/21</td>
<td>Interest Rates and Yield to Maturity</td>
<td>Mishkin Ch4</td>
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<td>9/26</td>
<td>Calculating Yields</td>
<td>Mishkin Ch5</td>
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<td>9/28</td>
<td>Financial Structure</td>
<td>Mishkin Ch. 8, World Bank Finance For All, Ch. 1 (pg. 31-33)</td>
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<tr>
<td>10/3</td>
<td>Information Costs</td>
<td>Mishkin Ch. 8, Maurer, Noel and Stephen Haber. 2005 “Related Lending and Economic Performance: Evidence from Mexico”</td>
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<td>10/12</td>
<td>Microfinance- a creative way of overcoming information costs</td>
<td>A&amp;M Ch. 1-3</td>
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<tr>
<td>10/17-21</td>
<td>NO CLASS FALL BREAK</td>
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<td>10/24</td>
<td>Microfinance</td>
<td>A&amp;M Ch. 4-5</td>
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Problem Set 3 due
Problem Set 4 handed out

10/26  Microfinance  A&M Ch. 4-5
10/29  Midterm emailed 9am
10/31  Bank Regulation  Mishkin Ch. 11
       Midterm due in class  The Economist “Super Model” Aug. 19, 2010
11/2   Banking Industry: Structure  Mishkin Ch. 12

3. Financial Crises and Policy Responses

11/7   Financial Crises: The S&L Crisis  Mishkin Ch. 9
11/9   The Subprime Crisis  Mishkin Ch. 9
       Problem Set 4 due
       Zingales, Luigi. “Overall Impact of TARP on Financial Stability” Testimony to the Congressional Oversight Panel
11/14  Financial Crises: General Trends  Mishkin Ch. 9

Regulation
Admati, Anat et. al. “Much More Bank Capital is Needed and Is Not Socially Costly” Financial Times Editorial Nov. 9, 2010
Nocera, Joe “Banking’s Moment of Truth” NYTimes Editorial June 20, 2011
### 4. Finance and Development: The Big Picture

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<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading</th>
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<tr>
<td></td>
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<td>Rajan and Zingales Ch. 1</td>
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<td>11/21</td>
<td>Financial Development, Growth &amp; Welfare: Examples</td>
<td>Rajan and Zingales Ch. 2 - 5</td>
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<td>Problem Set 5 due</td>
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<td>Problem Set 6 handed out</td>
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<tr>
<td>11/30</td>
<td>How Financial Development Happens: Taming Incumbents</td>
<td>Rajan and Zingales Ch. 7 &amp; 8</td>
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<td>11/30</td>
<td>Reversals in Financial Development: Cautionary Tales about Regulation</td>
<td>Rajan and Zingales Ch. 9 &amp; Ch.10 (pg 219-224)</td>
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<td>Zingales, Luigi. 2010. “My Losing Battle Against the Leviathan” Working paper compilation</td>
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### 5. Presentations

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<tr>
<th>Date</th>
<th>Topic</th>
<th>Due Date</th>
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<tr>
<td>12/5-12</td>
<td>Group Presentations</td>
<td>12/12</td>
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<td>Problem Set 6 due (12/12)</td>
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