

ECON 306: Money and Banking

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Office hours: (M/T/W) 9AM-11:00 AM

Class time: (T/TH) 12:30-13:45

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This course dissects the structure of the financial system, the function of banking institutions, and examines linkages between the financial markets, the goods market, and the actions of the central bank.

Required Textbook and Materials

- **Main textbook:** The Economics of Money, Banking, and Financial Markets, 11th edition. Wesley, 2016. (or current edition)
Author(s): Frederic S. Mishkin (**available on blackboard**)
- **Blackboard:** I will only rely on blackboard to post material pertaining to due dates, exams, grades, problem sets, and study guides.

Course Objectives

1. Understand the structure of the financial system and transmission monetary mechanism of monetary policy.
2. Know the bond market the factors that influence the supply and demand for bonds.
3. Understand the value of money and bond pricing.
4. Understand the term structure of interest rates.
5. Understand how asymmetric information leads to adverse selection and moral hazard.
6. Know the causes of the financial crises.

7. Be familiar with the key components of banks' balance sheets, key banking regulations, credit risk management, and capital adequacy management.
8. Know the tools of monetary policy and the different monetary policy rules (for example, the Taylor rule).
9. Be able to rely on the IS-LM Model to examine the impact of monetary policy on the economy.

Course Details

Lectures are held in person and attendance is mandatory. It is important to read the relevant chapters prior to attending class, particularly because the textbook material complements the lectures. Exam questions stem directly from the problem sets and the lecture content covered in class. I do not allow makeup exams, except for these students whose cases stem from illness or injury. This class incorporates an inclusive and equitable environment, which means that students are expected to treat their peers with a high degree of professionalism, kindness, and respect. Additionally, the university's **Title IX** policy encourages access to information and resources to support anyone who has been affected by, knows of, or wants to help prevent an incident or pattern of behavior. Students may contact the Title IX coordinator (**Mary Martinez**) by phone (989-774-3253) to discuss any questions or concerns. Some students may require additional resources to ensure equal access: these students should contact the **accessibility resources center** to discuss ways in which their needs can be met. The accessibility resources center is located in **park library 120**.

Grade Distribution

Grade	Range (%)
A	94-100
A-	90-93.99
B+	85-89.99
B	80-84.99
B-	77-79.99
C+	73-76.9
C	70-72.99
C-	67-69.99
D+	63-66.99
D	60-62.99
F	0-59.99

Table 1: Grade Distribution (ECON 306)- Money and Banking

- **Problem sets (20%)**: there are two problem sets (see due dates on blackboard).
- **Exams (80%)**: there are two non-cumulative exams in this course. Exams content and dates are available on Blackboard.

Class Schedule

The following class schedule is tentative and may change if needed. The weekly topics should mainly serve as a reference for the lectures.

- Introduction monetary economics: I will provide a brief overview of the transmission monetary mechanism of monetary policy and stylized facts about the US banking sector.
 - Why Study Money, Banking, and Financial Markets? (**chapter 1**)
- The role of money: I will go over the role of money in the economy, the evolution of payment systems, the structure of financial markets, and the composition monetary aggregates.
 - An Overview of the Financial System (**chapter 2**)
 - What Is Money? (**chapter 3**)
- Financial markets: we will discuss the principles of the time value of money, bond pricing, the term structure of interest rates, and the factors that influence the supply and demand for bonds.
 - The Meaning of Interest Rates (**chapter 4**)
 - The Behavior of Interest Rates (**chapter 5**)
 - The Risk and Term Structure of Interest Rates (**chapter 6**)
- Financial institutions: I will discuss the causes of financial crises, the role of asymmetric information in explaining adverse selection and moral hazard. Lastly, we will go over banking regulations, off-balance sheet activities, the features of a bank balance sheet, capital adequacy management, and a few strategies that banks can employ to minimize credit risks.
 - An Economic Analysis of Financial Structure (**chapter 8**)
 - Banking and the Management of Financial Institutions (**chapter 9**)
 - Economic Analysis of Financial Regulation (**chapter 10**)
 - Banking Industry: Structure and Competition (**chapter 11**)
 - Financial crises (**chapter 12**)
- Central banking and the conduct of monetary policy: we will go over the federal reserve system, tools of monetary policy, and discuss different monetary policy strategies (for example, Taylor rule).
 - Central Banks and the Federal Reserve System (**chapter 13**)
 - The Money Supply Process (**chapter 14**)
 - Tools of Monetary Policy (**chapter 15**)
 - The Conduct of Monetary Policy: Strategy and Tactics (**chapter 16**)
- IS-LM model: we will rely on IS-LM model to examine the impact of monetary policy on the economy.
 - The IS Curve (**chapter 20**)

Academic Integrity

Refer to the University's **academic policies and guidelines** for information pertaining to academic integrity and honesty policy. Students are responsible to adhere to the honor code in all academic endeavors.