

Syllabus
Money and Banking
Econ-UA 231, NYU Economics
Summer 2018

Instructor : Ercan Karadas
Term : July 2 - August 9
Lectures : MTWTh 10:45 - 12:20 PM, Room: 60FA C04
Office Hours : MTh 12:30 - 13:30 or by appointment, Room: 716 (19 W4)
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1 Course Description

This course has three primary goals. First we will study the abstract concept of money in theory, in history, and in recent financial data. For instance, we will address why fiat currency (an intrinsically worthless piece of paper) is valued and serves a key purpose in the functioning of markets. Next we will turn to the role of banks in the economy. We will cover the historical purpose of banking (taking deposits and making loans) and then turn to the vastly more complex banking landscape today. We will cover the shadow banking industry and its role in the 2007 financial crisis and recession. Finally, we will combine the first two sections and study the role of the Federal Reserve in managing monetary policy and overseeing the banking system. We will cover the traditional monetary policy tools the Fed has historically used, but pay special attention to the highly publicized and unconventional policy tools employed during the financial crisis.

Prerequisites: ECON-UA 1 and 2 (Principles) or ECON-UA 5 (Introduction to Economic Analysis).

2 Course Materials

2.1 Required Materials

- [M] *The Economics of Money, Banking and Financial Markets* by Frederic Mishkin (2016), 11th Edition, Pearson Education.
- *MyEconLab*. MyEconLab is a collection of online homework, tutorials, practice exams and other class materials. You are required to purchase a subscription to MyEconLab. All homework assignments will be accessed and graded using MyEconLab. For the registration instructions please see the last page of the syllabus.
- *Lecture Slides* accessible through NYU Classes.

2.2 Optional Materials

- *The Maze of Banking: History, Theory, Crisis* by Gary Gorton (2015), Oxford University Press.
- *Reforming US Financial Markets* by Randall Kroszner and Robert Shiller (2011), The MIT Press.

You have three options when purchasing the textbook that include the MyEconLab subscription (required, see below):

- MyEconLab subscription with Etext only (ISBN 9780133862515, \$147.8)
- Loose leaf print book and MyEconLab subscription with Etext (ISBN 9780134047393 \$212.8)

- Hard-cover book and MyEconLab subscription with Etext (ISBN 9780134047348, \$297.60)

Note that all options above come with the electronic version of the book which you can access through MyEconLab.

3 Grading

3.1 Course Grade

Your course grade will be based on Homework, Tests and a Presentation:

Assessment	Weight
Homework	25%
Test 1	18%
Test 2	19%
Test 3	19%
Test 4	19%
Total	100%

Once your total score is determined, your letter grade from the course will be determined by the following curve that is recommended by The Economics Department policy:

Letter	Percentile
A&A-	35%
B+&B&B-	40%
C	20-25%
D&F	0-5%

Grades are based solely on your total score. No extra work or additional credit can be assigned to improve your grade.

3.2 Exams

All exams are closed-book and taken in class during lecture. The exams will be a collection of multiple choice and short answer questions. There will be no make-up exams. If you miss one of the tests, its weight will be distributed among the remaining tests. If you must take the last test. The exam content will be cumulative, but with an emphasis on the most recent material. All material discussed in the course is examinable unless stated otherwise. The usual university polices on academic honesty apply. No electronic devices other than calculators may be used during the tests.

3.3 Homework

There will be weekly homework during the semester. All homework is assigned by me and completed by you through MyEconLab. I will drop your lowest homework grade. The homework is meant to provide you practice problems for the tests.

4 Miscellaneous Course Policies

- **Attendance**

Class attendance and participation are expected and required. If you anticipate to be unable to attend either the Class you need to notify me ASAP. Use of laptops and cellphone during class is strictly prohibited.

- **Missed Exams**

If you miss a midterm due to a medical emergency (for which you must provide a doctors note within one week of the exam) I will appropriately re-weight your scores from the remaining exams.

There is no make-up for the final test.

- **Regrading**

You may ask for a regrade within one week after the exam was distributed if you think your exam was graded incorrectly. If you ask for a regrade, you must email me explaining what specifically you view as having been graded incorrectly. I will then regrade your whole exam. So your score could go up or down.

- **Academic Integrity**

Academic dishonesty in assignments, examinations, or other academic performance is prohibited and considered a violation of the student conduct. All students are responsible for knowing and adhering to the academic integrity policy of the NYU-CAS available at:

<https://cas.nyu.edu/content/nyu-as/cas/academic-integrity.html>

5 Timeline (Tentative)

Date	Topics	Readings
July 3	Why Study Money, Banking, and Financial Markets?	M 1
July 4	No Class, Independence Day	
July 5	An Overview of the Financial System	M 2
July 9	What is Money?	M 3
July 10	The Meaning of Interest Rates	M 4
July 11	The Behavior of Interest Rates	M 5
July 12	The Risk and Term Structure of Interest Rates	M 6
July 16	Test 1	M 1-6
July 17	The Stock Market, the Theory of RE, and the EM Hypothesis	M 7
July 18	An Economic Analysis of Financial Structure	M 8
July 19	Banking and the Management of Financial Institutions	M 9
July 23	Test 2	M 1-9
July 24	Economic Analysis of Financial Regulation	M 10
July 25	Banking Industry: Structure and Competition	M 11
July 26	Financial Crises in Advanced Economies	M 12
July 30	Test 3	M 7-12
July 31	Central Banks: A Global Perspective	M 14
Aug. 1	The Money Supply Process	M 15
Aug. 2	Tools of Monetary Policy	M 16
Aug. 6	The Conduct of Monetary Policy: Strategy and Tactics	M 17
Aug. 7	Aggregate Demand and Supply Analysis	M 23
Aug. 8	Monetary Policy Theory	M 24
Aug. 9	Test 4	M 14-17, 23,24

6 Reading List

Topic 1: Money & Credit: In History, Data, and Theory

Required:

- Mishkin Chapters 1-3
- The Economist, [The rise and fall of Elizabeth Holmes, Silicon Valleys startup queen](#)
- Andolfatto (MacroMania), [Evil is the Root of All Money](#)

Optional:

- Radford, *The economic organisation of a POW camp*, *Economica*, 1945.
- Kocherlakota, *The Technological Role of Fiat Money*
- Andolfatto, *Is Gold Money?*
- Ivanhoff, *Warren Buffet on Gold*
- Nakamoto, *Bitcoin: a peer-to-peer electronic cash system*
- Garratt & Hayes, *Bitcoin: How Likely is a 51% Attack?*
- Smith, *The Relationship Between Money and Prices: Some Historical Evidence Reconsidered*
- Walalce, *Fiat Money* (for the technically inclined)

Topic 2: Interest Rates, Discounting, and Risk

Required:

- Mishkin Chapters 4-7

Optional:

- Keister, *Why is there a zero lower bound on interest rates?*
- Cochrane, *The decline in long-term interest rates*
- Mankiw, *What does an inverted yield curve mean?*

Topic 3: Direct and Indirect Finance

Required:

- Mishkin Chapter 8

Optional:

- James and Wier, *Are Bank Loans Different?*
- Lummer and McConnell, *Further Evidence on the Bank Lending Process*
- King and Levine, *Finance and Growth: Schumpeter Might Be Right*

Topic 4: Traditional Banking

Required:

- Mishkin Chapters 9 and 10
- Web Appendix 1 to Chapter 10 in Mishkin (Savings and Loan Crisis)
- Carney, *What are Banks Really For?* (pp. 1-2)
- Nosal, *Optimal Deposit Contracts: DoItYourself BankRun Prevention for Banks*
- Kashyap, Rajan, and Stein, *Banks as Liquidity Providers* (Intro only)
- Gatev and Strahan, *Banks Advantage in Hedging Liquidity Risk* (Intro only)

Optional:

- Ashcraft, *Are Banks Really Special? New Evidence from the FDIC-Induced Failure of Healthy Banks* (Intro only)
- Avraham, Selvaggi, and Vickery, *A Structural View of U.S. Bank Holding Companies*
- Boyd and Gertler, *Are Banks Dead? Or Are the Reports Greatly Exaggerated?*
- DeYoung, *Mergers and the Changing Landscape of Commercial Banking: Part I*
- Ely, *The Savings and Loan Crisis*
- Kormendi, Bernard, Pirrong, and Snyder, *The Origins and Resolution of the Thrift Crisis*
- Kroszner, *Rethinking Bank Regulation: A Review of the Historical Evidence*
- Kroszner, *The Motivations Behind Banking Reform*
- Poposka, Vaughan, and Yeager, *The Two Faces of Banking*

Topic 5: Shadow Banking and the Recent Financial Crisis

Required:

- Mishkin Chapters 11 and 12
- Carney, *What are Banks Really For?* (pg 3-7)
- Noeth and Sengupta, *Is Shadow Banking Really Banking?*
- Rosen, *The Role of Securitization in Mortgage Lending*

Optional:

- Acharya and Richardson, *Causes of the Financial Crisis*
- Brunnermeier, *Deciphering the Liquidity and Credit Crunch 200708*
- Campello, Graham, and Harvey, *The Real Effects of Financial Constraints*
- Cipriani, Holscher, Martin, and McCabe, *Money Market Funds and Systemic Risk*
- Coval, Jurek, and Stafford, *The Economics of Structured Finance*
- Diamond and Rajan, *The Credit Crisis: Conjectures about Causes and Remedies*
- Economist, *Securitization: When it goes wrong ...*
- Economist, *Northern Rock: Lessons of the fall*

- Griffin and Tang, *Did Credit Ratings Agencies Make Unbiased Assumptions on CDOs?*
- Hachem and Song, *Liquidity Regulation and Unintended Financial Transformation in China*
- Jaffee, *The Role of the GSEs and Housing Policy in the Financial Crisis*
- Kroszner, *Liquidity-Risk Management in the Business of Banking*
- Minneapolis Fed Interview with Gary Gorton
- Poposka, Vaughan, Yeager, *The Two Faces of Banking*
- Pozsar, Adrian, Ashcraft, and Boesky, *Shadow Banking*
- Pozsar, *Institutional Cash Pools and the Triffin Dilemma of the U.S. Banking System*

Topic 6: The Federal Reserve System and the Money Supply

Required:

- Mishkin Chapters 14 and 15
- Web Appendix 4 to Chapter 15 in Mishkin (Great Depression)
- Gorton and Huang, *Banking Panics and the Origin of Central Banking*

Optional:

- Andolfatto (MacroMania), *The Free-Banking vs. Central-Banking Debate*
- Andolfatto (MacroMania), *What makes a central bank special?*
- Carlstrom and Fuerst, *Central Bank Independence: The Key to Price Stability?*
- McCandles and Weber, *Some Monetary Facts*
- Rowe (Worthwhile Canadian Initiative Blog), *Currency, Interest, and Redeemability*

Topic 7: Objectives and Tools of Monetary Policy

Required:

- Mishkin Chapters 16 and 17
- Bernanke, *Deflation: Making Sure It Doesn't Happen Here*
- Santomero, *What Monetary Policy Can and Cannot Do*

Optional:

- Web Appendix 2 to Chapter 17 in Mishkin (History of Fed Policymaking)
- Alessi and Detken, *Real Time Early Warning Indicators for Costly Asset Price Boom/Bust Cycles*
- Carlson and Parrott, *Understanding the Recent Behavior of M2*
- Kohn, *Monetary Policy and Asset Prices Revisited*
- Kroszner, *Communications Strategy, Expectations Management, and Central Bank Credibility*

Topic 8: Channels of Monetary Transmission

Required:

- Mishkin Chapters 20, 21, 22, 23, and 24
- Bernanke, *Monetary Policy Transmission: Through Money or Credit?*

Optional:

- Mishkin Chapter 25 and 26
- Romer, *Keynesian Macroeconomics without the LM Curve*

Topic 9: Crisis Response and Financial Reform (if time permits)

Required:

- Kroszner and Shiller, Chapter 2
- Bernanke, *The Crisis and the Policy Response*
- Bernanke, *Correction of Recent Press Reports Regarding Federal Reserve Emergency Lending*
- Kroszner, *Central Banks Must Time a Good Exit*
- The Economist, *Regulating Finance: Patchwork Planet*
- The Economist, *Fighting Financial Crisis: Dont Look Down*
- The New York Times, *Putting a Positive Spin on Too-Big-to-Fail*
- The Economist, *Living Wills: Death Warmed Up*
- The Economist, *Reforming LIBOR: The \$300 Trillion Question*

Optional:

- The New Yorker, *Eight Days: The Battle to Save the American Financial System*
- Bernanke, Remarks in Honor of Milton Friedman
- Collection of Federal Reserve Press Releases
- Willardson, *Actions to Restore Financial Stability*
- Willardson and Pederson, *Federal Reserve Liquidity Programs: An Update*
- FAQs on the Feds Maturity Extension Program
- Sarkar and Shrader, *Financial Amplification Mechanisms and the Feds Supply of Liquidity*
- Gagnon, Raskin, Remache, and Sack, *Large-Scale Asset Purchases by the Fed: Did They Work?*
- Keister and McAndrews, *Why Are Banks Holding So Many Excess Reserves?*
- Senate Banking Committee, *Brief Summary of Dodd-Frank*
- The Economist, *Fright Simulator*
- Balin, *Basel I, Basel II, and Emerging Markets: A Nontechnical Analysis*
- Moodys Analytics, *Basel III New Capital and Liquidity Standards - FAQs*
- Kwan, *The Promise and Limits of Market Discipline in Banking*
- Basel Committee, *Globally Systemically Important Banks*
- Rajan, *Too Systemic to Fail*

Student Registration Instructions

To register for **ECON 231** :

1. Go to www.pearson.com/mylab .
2. Under Register, select **Student** .
3. Confirm you have the information needed, then select **OK! Register now** .
4. Enter your instructor's course ID: **karadas47617** , and **Continue** .
5. Enter your existing Pearson account **username** and **password** to **Sign In** .
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