

**UNIVERSITY OF CONNECTICUT**  
**Department of Economics**  
**ECON 2411-01: Money and Banking**  
**Fall 2010 MWF 1:00 – 1:50 pm Mont 143**

**Instructor: William Lott, Monteith 346**  
**Office Hours: MWF 11:00 am – 12:30 pm**

**William.Lott@uconn.edu**  
**Phone: 860-486-3885**

**Overview:**

Econ 2411 is the study of the influences of money, financial markets and institutions on the overall economy, and particularly on the business cycle. The emphasis in this course will be on how Federal Reserve policy actions can influence the real economy -- production, employment and consumption -- as well as financial markets -- interest rates and the prices of stocks and bonds. Domestic monetary policy cannot be fully understood without consideration of the effects of fluctuations in the foreign currency exchange rate and financial crises such as the U. S. has experienced recently. Important roles of the banking industry will be covered, particularly the challenges of financial risk management and regulation of banks. The kinds of questions to be addressed are:

- What roles do money, stocks and bonds play in the economy?
- How are financial markets organized and how have they performed?
- How are US financial markets regulated?
- How are interest rates and exchange rates determined?
- How do banking institutions affect the supply of money and credit?
- What causes inflationary booms, asset price bubbles and recessions?
- How does the Fed's influence over interest rates and the money supply affect financial markets and real economic activity?
- What are the connections between U. S. domestic monetary and fiscal policies, and between domestic policies and the international monetary system?

We will address these and other questions from a conceptual (theoretical) and a practical viewpoint. Macroeconomic theories provide a framework for understanding and explaining financial market activity and predicting the consequences of monetary policy actions. Equally important will be the discussion and interpretation of current events reported in the press. **This semester, the role of bank lending, the Federal Reserve and monetary policy in the current financial crisis and recession will be emphasized.** By studying the current macroeconomic performance of the U. S. economy, concentrating on the behavior of financial markets, the banking system and Fed policy actions, you can become a more knowledgeable and sophisticated observer of economic events as they unfold.

**Required Texts:**

1. Mishkin, Frederic S., *Money, Banking, and Financial Markets*, 9<sup>th</sup> Main Edition, with Coursecompass/MyEconLab Student access code, (2010). **This text/technology package is available only at the Coop or directly from the publisher. Do not purchase this textbook until you have attended the first class.**
2. Wall Street Journal student subscription, including WSJ.com. (Available from Instructor)  
Online order site: <http://subscribe.wsj.com/semester>
- 3.. Wessel, David, *In Fed we Trust*, Crown Publishing Co. 2009, ISBN 978-0-307-45968-8 (Used book OK)

**Strongly Recommended:**

Readings on MyEconLab, *Business Week*, *Financial Times*, *The Economist*.

We will be following the Mishkin text fairly closely. The Wall Street Journal (**WSJ.com**) is your best source for current events in financial and money markets, and you should maintain a clippings file on these. *The Economist*, *Business Week* and *Financial Times* are also good sources. A financial calculator is not required, but one would be very useful in the course and would save time on the exams.

**COURSE FORMAT**

The learning model for this course may be different from previous courses you have taken. The emphasis is on **individual study** using the textbook and on-line MyEconLab assignments and tests, supported by summary PowerPoint lectures and class discussion. Current events in the financial markets will be discussed in class, and you will be responsible on exams for all material covered in class. **Regular attendance is strongly recommended.**

1. **Advanced Preparation** To gain the most benefit from class time you should read the applicable chapter and prepare a set of notes in outline form before class. **You should not expect to take detailed notes in the lecture classes; bring your notes to class and highlight/add the points covered in the lecture.**

2. **Lecture Classes.** There will be three 50-minute lectures each week (MWF ,Mont 143) which you are expected to attend. Generally we will cover two chapters in Mishkin each week (see the attached schedule of lecture topics.) The purpose of these lectures is to summarize the most important information in each chapter and reinforce your own study and note-taking. They are not a substitute for intensive study of the textbook material. Because of the large class, the lectures will be structured PowerPoint presentations with time for Q&A. The PowerPoint slides will not be available outside of class. You will also be responsible for material presented and discussed in these lectures that go beyond the textbook. Extra credit assignments given in class will be available only to those in attendance. **Please refrain from talking or using cell phones during the lectures. Photos and audio recording are not permitted.**

3. **CourseCompass/MyEconLab** To take this course you must register on the **CC/MEL** web site. Graded homework will be assigned on CC/MEL each week. These will be available immediately after the chapter lecture, and will have a due date and time. Check your MyEconLab course outline each week for assignments, due dates and times. Each graded assignment will have a posted point value. Everything is graded automatically by MyEconlab. If you fail to submit an assignment by the due date and time, you will receive a score of zero for that assignment, so pay attention to due dates. There will also be five on-line tests administered in MyEconLab, which are equivalent to in-class exams. These tests will be timed and questions will be randomized for each student. (Students with special needs will be accommodated) You must take the on-line tests during the time period when they are available, otherwise you will miss out and get a zero score.

4. **Extra Credit Assignments** A few extra credit assignments may be given in class. They will be voluntary, but unscheduled and not announced in advance. To be eligible for any extra credit you must be in class at the time they are given out. (No show – no credit!) Generally, they will involve a little extra (on-line) research and submission of a brief paper on the assigned topic by the given deadline.

5. **Exams:** There will be four on-line tests administered on CourseCompass/MyEconlab, and an on-line final exam administered on CourseCompass/MyEconLab during the two exam period on December 15<sup>th</sup> between 1 and 3 p.m. All exams will be multiple-choice but will include some quantitative problems. The on-line tests will be timed, and you will not have enough time to look up the answers.

### GRADING POLICY

(a), Graded homework assignments and exam scores will not be scaled, but carried forward as raw scores. Final letter grades may be scaled if necessary, but don't count on it. Final letter grades will be based on a weighted average as follows:

<b>MyEconLab</b>	<b>4 Online Tests</b>	<b>Final</b>
<b><u>Homework</u></b>	<b><u>(12.5% each)</u></b>	<b><u>Exam</u></b>
<b>20%</b>	<b>50%</b>	<b>30%</b>

(b) There will be **no make-up tests or alternate test times** except for documented medical reasons or University conflicts, in which case the instructor must be notified and alternative arrangements made prior to the regular test date. Otherwise, missing a test results in a grade of zero for that test. Requests to reschedule the final exam due to “bunching” of finals must be processed through the OSA office – no exceptions.

(c) No Incomplete grades except for verifiable medical emergencies which prevent a student from completing all of the course requirements. Incompletes have to be arranged with the instructor no later than the date of the last class, 12/10. You must also have a passing average grade on work completed to be eligible for an Incomplete grade.

(d) The University Senate policy on academic honesty applies to all graded activities. You are advised to review that policy, which is available on the MyEconLab website under **Course Materials**. Cheating of any kind on an exam carries a penalty of a zero grade for that exam, plus possible disciplinary action.

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NOTE: Go to CourseCompass/MyEconLab for graded homework on each chapter, and on-line tests.(Lott06755)

Course Outline (tentative)

<b>Date</b>	<b>Mishkin Reading</b>	<b>Wessel Reading</b>	<b>Topic</b>
Aug. 30	1	1	Why Study Money, Banking and Financial Markets
Sept. 1	1	1	Why Study Money, Banking and Financial Markets
Sept. 3	2	2	An Overview of the Financial System
Sept. 8	2	2	An Overview of the Financial System
Sept. 10	3	3	What is Money?
Sept. 13	3	3	What is Money?
Sept. 15	3	3	What is Money?
Sept. 17	4	4	Understanding Interest Rates
Sept. 20	4	4	Understanding Interest Rates
Sept. 22	4	4	Understanding Interest Rates
Sept. 23			Exam #1 – Chapters 2-4
Sept. 24	5	5	The Behavior of Interest Rates
Sept. 29	5	5	The Behavior of Interest Rates
Oct. 1	6	6	The Risk and Term Structure of Interest Rates
Oct. 4	6	6	The Risk and Term Structure of Interest Rates
Oct. 6	7	7	The Stock Market, The Theory of Rational Expectations
Oct. 8	7	7	And the Efficient Market Hypothesis
Oct. 11	13	8	Central Banks and the Federal Reserve System
Oct. 13	13	8	Central Banks and the Federal Reserve System
Oct. 14			Exam #2 – Chapters 5-7
Oct. 15	14	9	The Money Supply Process
Oct. 18	14	9	The Money Supply Process
Oct. 20	15	10	The Tools of Monetary Policy
Oct. 22	15	10	The Tools of Monetary Policy
Oct. 25	16	11	The Conduct of Monetary Policy: Strategy and Tactics
Oct. 27	16	11	The Conduct of Monetary Policy: Strategy and Tactics
Oct. 29	17	12	The Foreign Exchange Market
Nov. 1	17	12	The Foreign Exchange Market
Nov. 2			Exam #3 – Chapters 13-16
Nov. 3	18		The International Financial System
Nov. 5	18		The International Financial System
Nov. 8	19		The Demand for Money
Nov. 10	19		The Demand for Money
Nov. 12	22		Aggregate Demand and Supply Analysis
Nov. 15	22		Aggregate Demand and supply Analysis
Nov. 17	23		Transmission Mechanisms of Monetary Policy: The Evidence
Nov. 18			Exam #4 – Chapters 17,18,19 and 22
Nov. 19	23		Transmission Mechanisms of Monetary Policy: The Evidence
Nov. 29	24		Money and Inflation
Dec. 1	24		Money and Inflation
Dec. 3	25		Rational Expectations: Implications for Policy
Dec. 6	25		Rational Expectations: Implications for Policy
Dec. 8			Dodd-Frank Financial Stability Act of 2010
Dec. 10			Catch up and Review
Dec. 15			Final Exam 1-3 PM