

**Department of Economics,  
DePaul University**

**ECO – 315 Money and Banking**

**Fall 2019**

**Meets:** Mond./Wed. 10:10 – 11:40, Room 412, 14 E Jackson

**Professor:** Ingunn Lonning, e-mail: [ilonning@depaul.edu](mailto:ilonning@depaul.edu).

**Office Hours:** Mond./Wed. 12 - 1 pm, in DPC 6225 and by appointment.

**Text:** Mishkin, Frederic S., *The Economics of Money, Banking and Financial Markets*, 12<sup>th</sup> edition. Pearson, 2019. ISBN 10: 0-13-473382-7. ISBN 13: 978-0-13-473382-1. You will also be fine with the 11<sup>th</sup> ed. from 2016. The differences are small, and I will refer to chapters and page numbers in both editions. You can buy the e-book or normal book.

**Additional Readings:** Various assigned articles and hand-outs will be given out in class or posted on D2L throughout the quarter. You should also read the news with a focus on information about financial markets, the state of the economy and actions of the Federal Reserve.

**Course Description**

This course will discuss the basic role that financial markets and financial intermediaries play in channeling resources from lenders to borrowers and the interaction between the economy, the financial markets and the operations of the Federal Reserve. We start with a discussion of financial markets and show how interest rates are determined in the bond market. Then we analyze how banks channel funds and multiply credit, how banks deal with risk, and how they are regulated to reduce the risk of financial crises. We look at the role of the Federal Reserve System, the money supply process, and how monetary policy interacts with the economy and financial markets.

**Learning goals**

After taking this class students should be able to:

- Explain the role of financial markets and institutions in the economy and how financial intermediaries help reduce the effects of moral hazard and asymmetric information.
- Explain what determines interest rates through graphic analysis of the bond market and calculations of bond prices and yield to maturity.
- List some financial market regulations, including FDIC, and explain how they help address the issues of asymmetric information.
- Use a bank's balance sheet and T-accounts to demonstrate liquidity and capital management issues.
- Explain the roles of the Federal Reserve System in stabilizing the economy and the inflation rate and explain and demonstrate graphically how various policy tools are used to fill these roles.

## **Prerequisites**

ECO 105 Microeconomics and ECO 106 Macroeconomics.

## **Written assignments**

There are several types of written assignments.

(i) Weekly online quizzes:

The online quizzes are short multiple-choice problem sets posted on D2L. Mostly, they are meant as a review or a check of your understanding of the material we covered the previous week in class. Quizzes are due every Monday morning at 9:30 am. This deadline is final. There will be NO resetting of these problems, not even for technical problems. That means that you need to start early. Your two lowest scores will be dropped, so that missing up to two quizzes will have minimal effect your overall quiz score. The first quizzes will be due Monday Sep. 23.

(ii) Hand-in assignments:

There will be two larger written hand-in assignments. Details will be posted on D2L one week before the due date. The first assignment is due a week before the midterm.

(iii) Other shorter tasks:

You will be asked to give short written summaries of articles or follow-up to something we have worked on in class. You will also be asked to write a brief review of some of the student presentations made in class. (See below)

There will be more detailed information posted on D2L about assignments.

In addition, there will be practice problem sets with solutions posted on D2L. You don't hand these in, but I strongly suggest doing them for your own learning and exam practice.

## **In-class group presentation:**

Find a topic within money/banking/financial markets that looks interesting to you and give a short presentation to the class. There will also be a list of suggested topics on D2L. I suggest you do these as a small group (2-3 people). Presentations should be short, and each person should present something. More information will follow.

## **What you can do**

Check D2L every week. A weekly agenda with relevant readings, handouts to bring to class, hand-in assignments, exam information and deadlines will be posted. Read, do assignments, and work on practice problems to stay updated on what we do in the class.

Read the news by reading the financial press (Wall Street Journal, Financial Times, Economist, business pages in other newspapers or online news sources). Look in particular for news related to the Federal Reserve, the banking sector and financial markets, but also news related to the general state of the economy.

If you miss a class, you are still responsible for all material discussed and for any homework assigned during class. If you are unable to attend a class, DO NOT e-mail the professor to ask her to repeat what was covered in class. Instead, check D2L and fellow students for relevant information and notes from the class.

**Exams:**

There will be a mid-term and a final examination. The final exam will be comprehensive. All material discussed in class or given in home works and practice problems can be used in exams. Before each exam, you will find a general overview of topics included in the exam on D2L. Exams will be a combination of multiple choice, graphic questions, short answer and essay questions.

No make-up exams will be given. If you know in advance that you will be unable to attend any of the exams, you need to notify me BEFORE the exam. With an excused absence from the mid-term the points from the mid-term will be reallocated to the final. If you are unable to attend an exam due to a medical emergency, please give notice as soon as possible and provide documentation upon return to class.

**Mid-term:** Wed. 10/17, normal class time.

**Final:** Wed. 11/20, 8:30 – 10:45am. This is the time set by the university.

<b>Grading</b>	<b>Value %</b>
Grades are based on homework, a mid-term and a final examination.	
Homework, presentation and participation	30
Mid-term	30
<u>Final</u>	<u>40</u>
Total:	100

To reward improvement over the quarter, 15% of your grade can be moved from the mid-term to the final.

**Attendance**

You can miss up to three classes with no questions asked. Missing more than 3 classes will lead to a reduction of 1 class point per class missed. (i.e. you could end up with a negative attendance grade.)

**Course Outline**

The chapters below refer to both the 12<sup>th</sup> and the 11<sup>th</sup> ed. of the textbook. Page numbers refer to the 12<sup>th</sup> ed., with the corresponding pages in the 11<sup>th</sup> ed. in parenthesis.

## **I. INTRODUCTION TO THE COURSE AND TO FINANCIAL MARKETS**

Introduction to the course, the financial system Ch. 1, pp.1–11,14-15 +  
Appendix to Ch. 1, Ch. 2  
(Same for both editions)

## **II. FINANCIAL MARKETS**

Interest rates Ch. 4  
Determination of interest rates Ch. 5  
Term structure of interest rates, the expectations hypothesis Ch. 6

## **III. FINANCIAL INSTITUTIONS, BEHAVIOR AND REGULATION**

An economic analysis of financial structure Ch. 8  
Banking Ch. 9  
Regulation of banking Ch. 10  
Banking structure and competition Ch. 11  
The financial crises Ch. 12

## **IV. CENTRAL BANKING AND MONETARY SUPPLY**

Central banks and the Federal Reserve System Ch. 13  
Money Ch. 3  
The money supply Ch. 14  
Tools of monetary policy Ch. 15  
Conduct of monetary policy Ch. 16

## **V. MONETARY THEORY**

Money demand and supply Ch. 5, pp. 102 – 117 (Ch. 5,  
pp. 101 – 108)  
  
The effect of monetary policy on the economy  
(Parts of Chapters 19 – 25)

**Note:** The course outline is tentative. Topics may be shifted around, and additional readings will be posted. Please, check D2L weekly for updated agenda for each week.

### **Academic integrity policy**

DePaul University is a learning community that fosters the pursuit of knowledge and the transmission of ideas within a context that emphasizes a sense of responsibility for oneself, for others and for society at large. Violations of academic integrity, in any of their forms, are, therefore, detrimental to the values of DePaul, to the students' own development as responsible members of society, and to the pursuit of knowledge and the transmission of ideas. Violations include but are not limited to the following categories: cheating; plagiarism; fabrication; falsification or sabotage of research data; destruction or misuse of the university's academic resources; alteration or falsification of academic records; and academic misconduct. Conduct that is punishable under the Academic Integrity Policy could result in additional disciplinary actions by other university officials and possible civil or criminal prosecution. Please refer to your Student Handbook or visit

[Academic Integrity at DePaul University \(http://academicintegrity.depaul.edu\)](http://academicintegrity.depaul.edu) for further details.

### **Students With Disabilities**

Students seeking disability-related accommodations are required to register with DePaul's Center for Students with Disabilities (CSD) enabling you to access accommodations and support services to assist your success. There are two office locations that can provide you with enrollment information, or inquire via email at [csd@depaul.edu](mailto:csd@depaul.edu) .

**Loop Campus** - Lewis Center #1420 - (312) 362-8002

**Lincoln Park Campus** - Student Center #370 - (773) 325-1677

Students are also invited to contact me privately to discuss your challenges and how I may assist in facilitating the accommodations you will use during this course. This is best done early in the term and our conversation will remain confidential.