

Winter 2020
DePaul University
ECO 315 – Introduction to Money and Banking

Professor: Dr. Jaejoon Woo
Office: 6218, DePaul Center (Loop)
Email: jwoo1@depaul.edu
Phone: 312/362-5585 and Fax: 312/362-5452
Homepage: <https://sites.google.com/site/jaejoonwoo>
Office Hours: Thursdays 4:00-5:00 or by appointment

Goal of this course: we study money, banking, and financial markets (bond and stock markets); the monetary policy process, and the operation of Federal Reserve system; foreign exchange markets and the relationship among money, interest rates and exchange rate; and futures and options. We stress the use of analytical frameworks to develop a way of thinking about the determination of asset prices, the role of money in both closed economic and open economic context, along with a review of the structure of financial markets. Also, we will discuss the international topics such as determination of exchange rates, exchange rate regimes. We emphasize the use of theoretical frameworks to study how the economy works and their application to actual economic events such as the 2007-09 global financial crisis or policy debates – using, as much as possible, recent examples and empirical research results.

Main Textbook (required): Frederic S. Mishkin, (2018), **The Economics of Money, Banking, and the Financial Markets**, 5th edition (Business school edition), Pearson.

Note that earlier editions, such as the 4th or 3rd edition, can be used as well.

Mishkin textbook will serve as primary readings, which will be supplemented with class handouts and articles. (Any handouts will be posted in D2L: <https://d2l.depaul.edu/>). So, you will need to check with D2L on a regular basis.

Course Requirements: It is very important to attend lectures, since the materials covered in lectures form the core of the course.

3 requirements: 2 Midterm Exams and Final Exam

Three Exams: There will be two midterms and one final. **The first mid-term exam is tentatively scheduled on February 3, the second mid-term on February 26, and the final exam on March 18 (to be confirmed later).** The final exam will cover the entire materials covered throughout the quarter. All the materials covered in the class will be tested, and you are also responsible for reading the textbook. No make-up exam will be given unless prior permission is granted. If you have to miss the exam with a valid excuse, you must discuss with me in advance before the exam in order to schedule the make-up exam. Anyone who misses an exam without permission automatically receives zero on the exam.

In addition, there will be 6 suggested problem sets for your self-assessment. While you are not required to submit, you should work on them to improve your understanding of the materials.

Note: Suggested problem sets and solution will be posted in D2L (<https://d2l.depaul.edu/>).

Grade: Final grade will be determined by final (36%), two mid-terms (2*30%), and class participation (4%).

Grading Scale: A=94% and above; 88%≤A-<95%; 82%≤B+<88%; 77%≤B<82%; 72%≤B-<77%; 67%≤C+<72%; 63%≤C<67%; 59%≤C-<63%; 56%≤D+<59%; 53%≤D<56%; 50%≤D-<53%; and F<50%.

General policy

You should be aware of and abide by the University's policy on academic integrity (<http://academicintegrity.depaul.edu>). Also, the instructor reserves the right to change the topics or schedules if necessary.

Makeup Exams

In cases of severe illness or other extreme circumstances, a student may request a makeup exam. You must inform me of and obtain permission for the absence prior to the exam time, and provide appropriate documentation. I reserve the right to investigate the legitimacy of the request and to assess a grade penalty, or to award a grade of zero if proper procedure is not followed.

Classroom Courtesy

Students are expected to behave professionally. This includes attending class and not engaging in unrelated and/or disruptive activities during class. I will check attendance, and missing more than 1/3 of classes will lead to a loss of one letter grade on your final score. Missing more than half will result in an automatic F grade. Attendance will be counted towards class participation portion of the letter grade (5% out total 100). Students having a compelling reason for missing class should inform me in advance by e-mail. Texting, messaging, cell phone calls or surfing the internet are not allowed during class. Students doing so will be requested to leave the class, resulting in one automatic absence.

Desire2Learn (D2L)

All class material will be posted on D2L (<https://d2l.depaul.edu/>). All communication will be through D2L, although I will make announcements in class and occasionally send emails as needed. "I DIDN'T CHECK D2L" will not be a valid excuse for missing announcements or assignments

Center for Students with Disabilities

Students who feel they need an accommodation based on a disability should contact the Center for Students with Disabilities (CSD) to receive reasonable accommodations based on their needs. The CSD is located in Lewis 1420 (312.362.8002) for support and additional services

CLASS SCHEDULE*

* The following schedule is only tentative and may have to be modified if necessary.

Jan 6 & 8: Overview of the US economy and 2007-09 financial crisis, monetary policy issues, and the financial markets.

Jan 13 & 15: Bond pricing and interest rates

Jan 20: No class (Martin Luther King day)

Jan 22 & 27: Portfolio choice and behaviors of interest rates

Jan 29: Risk and term structures of interest rates

Feb 3: First Midterm Exam in class (closed-book test).

Feb 5 & 10: Risk and term structures of interest rates, and Stock market and the efficient market hypothesis

Feb 12 & 17: Stock market and the efficient market hypothesis, and Foreign exchange rates

Feb 19 & 24: Foreign exchange rates

Feb 26: Second Midterm Exam in class (closed-book test)

Mar 2: Options and futures and bank operation

Mar 4 & 9: Bank operation, and Fed and Monetary policy tools

Mar 11: Monetary policy tools, and Money & Inflation.

March 18 (to be confirmed): Final Exam in class (closed-book test).

Note that the additional readings are hyperlinked. Click on the title of the articles (in blue color) and it will lead to the website where you can find the articles or video clips.

UNIT 1. Introduction to Money and the Financial Systems

Overview of the US economy and 2008-09 financial crisis, recent monetary policy issues, and the financial markets.

Reading: Mishkin textbook, Chapters 1 and 2, (and 12 on financial crisis)

Additional Readings:

- U.S. Economic Outlook

[“Federal Reserve issues FOMC statement,”](#) Federal Reserve Board, December 10-11, 2019.

[“Recent economic and financial developments,”](#) Monetary Policy Report to The Congress by the Federal Reserve Board, July 5, 2019.

[“World economic outlook update: Global Manufacturing Downturn, Rising Trade Barriers,”](#) IMF, October 2019.

- Current Issues

[“A Challenging Decade and a Question for the Future”](#), Janet Yellen, Oct 20, 2017.

[“Why Are Interest Rates So Low?”](#) Ben Bernanke, Mar 30 and 31, Apr 1 and 13, 2015.

[“What Tools Does the Fed Have Left?”](#) Ben Bernanke, Mar 18 and 24, Apr 11, 2016.

[“Has the Wage Phillips Curve Gone Dormant?”](#) Sylvain Leduc and Daniel Wilson, Oct 16, 2017.

- 2007-09 Financial Crisis and Great Recession

*[“Financial panic and credit disruptions in the 2007-09 crisis,”](#) Ben Bernanke, September 13, 2018.

[“The housing bubble, the credit crunch, and the Great Recession: A reply to Paul Krugman,”](#) Ben Bernanke, September 21, 2018.

[“The Federal Reserve's response to the financial crisis,”](#) Ben Bernanke, March 27, 2012.

[“The crisis,”](#) Alan Greenspan, Brookings Papers on Economic Activity, Spring 2010.

- Sovereign Debt Crisis in Europe

[“The European sovereign debt crisis,”](#) Philip Lane, Journal of Economic Perspectives, Summer 2012, pp. 49–68

[“European debt crisis,”](#) New York Times (a collection of articles and the chronology of the crisis).

UNIT 2. Financial Markets and Asset Pricing

Bond Pricing and Interest Rates

Reading: Mishkin textbook, Chapter 4

The Behavior of Interest Rates

Reading: Mishkin textbook, Chapter 5

Portfolio Choice and Models of Asset Pricing

Reading: Mishkin textbook, [Chapter 5 Web Appendix 1 Models of Asset Pricing](#)

The Risk and Terms Structure of Interest Rates, and Forecasting Interest Rates

Reading: Mishkin textbook, Chapter 6

Additional Readings:

[“Information in the Yield Curve about Future Recessions,”](#) Michael D. Bauer and Thomas M. Mertens, FRBSF Economic Letters, August 27, 2018.

[“\(Don’t Fear\) the Yield Curve,”](#) Engstrom, Eric, and Steve Sharpe, *FEDS Notes*, Federal Reserve Board of Governors, June 28, 2018.

[“Long-Term Interest Rates,”](#) Ben S. Bernanke, March 1, 2013.

[“A New Conundrum in the Bond Market?”](#), Michael Bauer, FRBSF Economic Letter, Nov 20, 2017.

[“Demographic Transition and Low U.S. Interest Rates”](#), Carlos Carvalho, Andrea Ferrero, and Fernanda Nechio, FRBSF Economic Letter, Sept 25, 2017.

[“Overheating in Credit Markets: Origins, Measurement, and Policy Responses,”](#) Jeremy Stein, Feb 7, 2013.

The Stock market, Rational Expectation, and Efficient Capital Markets Hypothesis

Reading: Mishkin textbook, Chapter 7 and Handout

Additional Readings:

[“Trendspotting in Asset Markets,”](#) The Royal Swedish Academy of Sciences has decided to award The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2013 to Eugene Fama, Lars Hansen, and Robert Shiller, October 14, 2013

The Foreign Exchange Market and Determination of Exchange Rates

Reading: Mishkin textbook, Chapters 20 and 21

Additional Readings:

[“Chapter 7. Currency Market and Exchange Rates,”](#) in Economic Report of the President, Feb 2007, pp.149-166.

[“China's Exchange Rate Policies and U.S. Financial Markets”](#), Thomas Mertens and Patrick Shultz, FRBSF Economic Letter, Oct 2, 2017

Financial Derivatives: Options and Futures

Reading: Handout on Options, and Mishkin textbook, Chapter 14. Financial Derivatives

UNIT 3. Financial Institutions and Banks

Bank Operation

Reading: Handout on Bank Operation, and Mishkin textbook, Chapter 9

UNIT 4. Central Banking and the Conduct of Monetary Policy

The Federal Reserve System

Reading: Handout, and Mishkin textbook, Chapter 16

Monetary Policy Tools, and Money Multiplier Process

Reading: Handout and only selected sections in Ch. 17, 18, 19 and 21 (only for foreign exchange intervention: sterilized and unsterilized)

Quantity Theory, Inflation, and the Demand for Money

Reading: Mishkin textbook, Chapter 22

Additional Readings:

- Money, Inflation, and Interest Rates

[“A Short History of Inflation,”](#) The Economist, February 22, 1992.

[“Globalization and Monetary Policy,”](#) Ben Bernanke, Speech at Stanford, March 2, 2007.

[“Inflation, Uncertainty, and Monetary Policy,”](#) Janet Yellen, Sept 26, 2017

- The Fed, Money Supply, and Monetary Policy Tools

[“Lecture 3: The Federal Reserve's Response to the Financial Crisis,”](#) Ben Bernanke, March 27, 2012.

[“Lecture 4: The Aftermath of the Crisis,”](#) Ben Bernanke, March 29, 2012.

- Unconventional Monetary Policy (Quantitative Easing, negative interest rates)

[“The Fed Reaches Deeper Into Its Tool Box,”](#) Economic Research Note, JPMorgan Chase Bank, March 14, 2008.

[“What Tools Does the Fed Have Left?”](#) Ben Bernanke, Mar 18 and 24, Apr 11, 2016.

[“Quantitative Easing for the People,”](#) Project Syndicate, John Muellbauer, Nov 5, 2014.

[“Do Central Bank Policies Since the Crisis Carry Risks to Financial Stability?”](#), IMF, Chapter 3 of Global Financial Stability Report, April 2013.

[“Lessons at the zero bound – the Japanese and US experience,”](#) William Dudley, New York Fed, May 21, 2013.