

# Economics 311: Money and Banking

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## Course Description

The Economics of Money and Banking investigates the role of financial instruments and institutions in the economy. Major topics include the determination of interest rates, the characteristics of bonds and stocks, the structure and regulation of the banking industry, the functions of a modern central bank, and the formulation and implementation of monetary policy. Students should complete the course with a solid understanding of the financial system and the role it plays in a market economy and with the ability to critically evaluate policy actions and other developments affecting the financial sector.

The course will pay particular attention to the current financial and economic crisis. Students will leave the course with an understanding of the events that precipitated the crisis, the government's response to the crisis, and the current debates surrounding the future of financial markets. Topics will include the role of exotic financial instruments, such as the CDO (collateralized debt obligation) and the CDS (credit default swap), the role of institutions such as The Fed (the Federal Reserve System) and the debate over financial regulation and restructuring, including a discussion of the Dodd-Frank financial reform legislation.

Doing well in this course – in both senses of getting a good grade and gaining knowledge and insight from the course – will require that you stay involved: do the readings, look at the videos and study the power points, and participate in discussions. The more involved you are, the more you will learn and the better you will do.

## Is this course for you?

Navigating the course requires a basic understanding of internet browsing, email, and word processing. With these, you should have little trouble learning how to use UMassOnline – the learning management system. The online discussion component of the course provides the opportunity to develop your ideas in collaboration with others.

Each component of the course includes one or more presentations, video lectures, and readings, demanding substantial effort over the term. This course involves a lot of written work and spreadsheet analysis. You will be required each week to post responses to discussion questions, to comment on others' responses, to submit homework, and to take exams. At the end of the course there is a final exam composed of short answer and essay questions. Discussion questions must be completed in a timely manner if you are to receive full credit. Note that the discussions will close once the window for them has passed. If you have a heavy work schedule, this class may not be for you.

Given the fast-paced nature of the course, deadlines for this course will be strictly enforced. Failure to meet scheduled requirements may put you at serious risk of failing the course – a significant waste of time, energy, and money. **Also, please note that all deadlines for the course are according to Eastern Standard Time.**

If you have a documented learning disability, please contact the course instructor during the first

week of class about accommodation.

With the above points addressed, that's it for technical details – read below for information on readings, information on how you will be evaluated, and finally, a class schedule. Good luck! Your instructor is here to help; you may email the instructor directly or post to the troubleshooting discussion board with any questions about the course – logistical, substantive, or otherwise.

## Readings

Many of the readings and videos, etc. can be downloaded or viewed from the course website. **Two essential and required readings are not provided through the website.** You must take responsibility for getting these books.

### 1. The textbook

Stephen G. Cecchetti and Kermit L. Schoenholtz, *Money, Banking, and Financial Markets*, 3<sup>rd</sup> edition, McGraw-Hill, Irwin.

There are two options for purchase:

1. You may buy the full print version, from a local bookseller, Amazon, etc.; or
2. You may buy an ebook version, from <http://create.mcgraw-hill.com/shop/>. The purchase includes both a downloadable, printable copy as well as an online viewing copy of the textbook.

### 2. This recent account of the crash

Michael Lewis, *The Big Short; Inside The Doomsday Machine*. New York and London: W.W. Norton & Company, 2010. ISBN 978-0-393-33882-9 (paperback, c. \$10).

## Course Requirements and Grading System

Your grade will depend on these activities:

Midterm Exam	20%	
Final Exam	20%	
Problem Sets	25%	Approximately 20 questions, some spreadsheet based
Discussions	25%	5 Discussion Questions (see below)
Case Studies	10%	2 Case Studies

Late work will be penalized (and beyond a certain point, not accepted). All assignments are open-book -- you will have access to readings and your own notes. However, the time constraint will make it difficult for you to answer the questions successfully if you have not completed the assigned readings.

In each Discussion, students should **post** at least one statement addressing the discussion question and **respond substantively** to at least one other student's post. The grade for each discussion depends on posting, responding, and the quality of the content.

## Grades

Grades will be assigned according to the following schedule. Lower-Bound Grade Cut-offs (no rounding)

A	A-	B+	B	B-	C+	C	C-	D	F
93	90	87	83	80	77	73	70	60	--

Good luck and enjoy the course!

**Please review the schedule below:**

Module No.	Topic	Unit #	Blackboard Course Content	Assignments Due	Note
<b>1</b>	Overview of the Financial System	<b>1</b>	<ul style="list-style-type: none"> <li>• Watch: PBS Frontline, "Inside the Meltdown"</li> <li>• Read Chapters 2 and 3 of Stephen G. Cecchetti and Kermit L. Schoenholtz, <i>Money, Banking, and Financial Markets</i>, 3rd edition, McGraw-Hill, Irwin but skip over pages 33-37.</li> <li>• Accompanying PowerPoints</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Post to Discussion 1: The Crisis and You?</b></li> <li>• Complete the Assignment for Day 2.</li> </ul>	<b>Corresponds to Days 1 &amp; 2</b>
	Excel Training	<b>2</b>	Watch the video tutorials (Parts1-3) to help you with worksheet A.	Complete worksheet A: Due by Midnight Today	<b>Day 3</b>
	Bond Pricing Basics	<b>3</b>	<ul style="list-style-type: none"> <li>• Read Chapter 4 of the Cecchetti and Schoenholtz text.</li> <li>• Watch the video tutorial for Worksheet B.</li> <li>• PowerPoint for Chapter 4</li> </ul>	Complete Worksheet B: Future and Present Value  <b>Due by Midnight Today</b>	<b>Day 4</b>
	Bond Pricing Basics, Continued	<b>4</b>	<ul style="list-style-type: none"> <li>• Continue to read Chapter 4 of the Cecchetti and Schoenholtz text, but skip over consols (pg. 128) as well as bond supply and demand (133-142), i.e., focus on pages 129-132.</li> <li>• Watch the video tutorial for Worksheet C.</li> <li>• PowerPoint for Chapter 4</li> </ul>	Complete Worksheet C: Coupon Bonds  <b>Due by Midnight Today</b>	<b>Day 5</b>
<b>2</b>	Bond Pricing, Continued	<b>5</b>	<ul style="list-style-type: none"> <li>• Read through Chapter 6 of the Cecchetti and Schoenholtz text.</li> <li>• Watch the Video Tutorial for Worksheet D</li> <li>• PowerPoints for Chapter 6</li> </ul>	Complete Worksheet D: TBills and Mortgages  <b>Due by Midnight Today</b>	<b>Day 6</b>
	Risk and Term Structure	<b>6</b>	<ul style="list-style-type: none"> <li>• Read Chapter 7 of the text, and skip over the section on pages 162-163 on municipal bonds. However, do not skip the small section on page 163 titled, "Lessons from the Crisis."</li> <li>• PowerPoints for Chapter 7.</li> </ul>	Complete the assignment: Plotting and Interpreting Bond Yields.  <b>Due by Midnight Today</b>	<b>Day 7</b>
	Stocks	<b>7</b>	<ul style="list-style-type: none"> <li>• Read chapter 8 of the textbook, but skip over pages 194-201 on the efficient markets hypothesis. (We will return to this section in a later part of the course!)</li> <li>• PowerPoint for Chapter 8.</li> <li>• Begin reading Michael Lewis's <i>The Big Short: Inside the Doomsday Machine</i> (W. W. Norton &amp; Co.,2010), which is to be finished by Day 19.</li> </ul>	Complete the Assignment for Day 8.  <b>Due by Midnight Today</b>	<b>Day 8</b>
	Derivatives	<b>8</b>	<ul style="list-style-type: none"> <li>• Read Chapter 9 of the text, excluding the section on</li> </ul>	Complete the Assignment for Day 9.	<b>Day 9</b>

Module No.	Topic	Unit #	Blackboard Course Content	Assignments Due	Note
			pricing options (pages 216-221) <ul style="list-style-type: none"> <li>• Watch the video lecture on CDOs.</li> <li>• PowerPoint for Chapter 9.</li> </ul>	<b>Due by Midnight Today</b>	
	Hedge Funds	<b>9</b>	<ul style="list-style-type: none"> <li>• Read Stowell, Investment Banks, Hedge Funds, and Private Equity (Academic Press, 2010); Chapter 11: "Overview of hedge funds" and "A Tale of Two Hedge Funds."</li> <li>• PowerPoint to accompany the Stowell readings.</li> <li>• Listen to a podcast about derivatives from Marketplace Whiteboard.</li> </ul>	Complete the assignment: A Tale of Two Hedge Funds.  <b>Due by Midnight Today</b>	<b>Day 10</b>
<b>3</b>	Stocks and Efficient Markets	<b>10</b>	<ul style="list-style-type: none"> <li>• Read through pages 194-201 of Chapter 8 of the Cecchetti and Schoenholtz text, on the efficient markets hypothesis.</li> <li>• Read: Crotty on "Why the Realism of Assumptions Matters"</li> <li>• Watch: Crotty on "Why the Realism of Assumptions Matters" and "Alternatives to the Efficient Markets Hypothesis"</li> <li>• Watch YouTube video "The Great HFT Debate"</li> <li>• <b>Midterm study review.</b></li> </ul>	<b>Post to Discussion #2: Efficient Markets</b>  <b>Due by Midnight Today</b>	<b>Day 11</b>
<b>Midterm on Day 12:</b>					
	Balance Sheets	<b>11</b>	<ul style="list-style-type: none"> <li>• Read Chapter 12 of the Cecchetti and Schoenholtz text.</li> <li>• PowerPoint for chapter 12</li> </ul>	Complete the assignment for Day 13. <b>Due by Midnight Today</b>	<b>Day 13</b>
	Banking and Balance Sheets, continued	<b>12</b>	Watch TEDx talk on the "Banker's New Clothes" by Anat Admati (YouTube link to video is provided)		<b>Day 14</b>
	Financial Instability & Crises	<b>13</b>	Read Chapter 14 of the Cecchetti and Schoenholtz textbook. PowerPoint for Chapter 14.	Complete the Assignment for Day 15.  <b>Post to Discussion #3: Off-balance-sheet activity and REPO 105s All due by Midnight Today</b>	<b>Day 15</b>
<b>4</b>	Minsky and Keynes	<b>14</b>	<ul style="list-style-type: none"> <li>• Watch Professor James Crotty on Minsky and Keynes' thought</li> <li>• Read: Jan Kregel, "The Natural Instability of Financial Markets,"</li> </ul>		<b>Day 16</b>

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	Crisis Overview & Timeline	15	<b>Watch/listen to the following:</b> <ul style="list-style-type: none"> <li>"Crisis of Credit" video</li> <li>Audio: "How Wall Street Made the Mortgage Crisis Worse" (NPR Morning Edition)</li> <li>Video: "Credit and Credibility," a PBS NOW special on the ratings agencies</li> <li>Bill Moyers' discussion of how Wall Street got away with little punishment for causing the crisis</li> </ul> <b>Read:</b> <ul style="list-style-type: none"> <li>Jarsulic, "Origins of the U.S. Financial Crisis"</li> <li>Crotty on "Rainmaker" firms</li> </ul>		<b>Day 17</b>
	Run On the Repo: A Modern Bank Run	16	<b>Read:</b> <ul style="list-style-type: none"> <li>Gorton, "Questions and Answers About the Financial Crisis"</li> <li>Read about Bank Self-Dealing via ProPublica</li> <li>PowerPoint to accompany the Gorton reading</li> </ul> <b>Watch: Marketplace's Whiteboard on Repos.</b>		<b>Day 18</b>
	Investment Banking	17	<b>Read:</b> <ul style="list-style-type: none"> <li>Stowell, ch. 1</li> <li>Case Study 1</li> <li>"The Subsidy"</li> <li>PowerPoint to accompany Case Study 1.</li> </ul>	<b>Complete the "Investment Banking A" assignment</b>	<b>Day 19</b>
	Central Banks: Structure	18	<b>Read</b> <ul style="list-style-type: none"> <li>Chapter 16 from the text</li> <li>Professor Epstein's paper on Central Bank Accountability</li> <li>PowerPoint for Chapter 16.</li> </ul> <b>Watch: "End the Fed As We Know It"</b>	<b>Post to Discussion #4: Lessons of The Big Short</b>	<b>Day 20</b>
5	Central Banking: Balance Sheets	19	<b>Read</b> <ul style="list-style-type: none"> <li>Chapter 17 from the text, but skip pages 433-444 on the deposit expansion multiplier.</li> <li>Merhling, "The New Federal Reserve"</li> <li>PowerPoint for Chapter 17. (Note: the PowerPoint covers chapters 17 &amp; 18.)</li> </ul> <b>Watch YouTube video on Quantitative Easing</b>		<b>Day 21</b>
	Monetary Policy	20	<b>Read:</b> <ul style="list-style-type: none"> <li>Chapter 18 of the text</li> </ul>	Complete the Assignment for Day 22.	<b>Day 22</b>

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			<ul style="list-style-type: none"> <li>PowerPoint for chapter 18 (It's bundled with the ch 17 slides)</li> <li>Jeremy Stein speeches:  "Lean, Clean and In-between" Oct., 2013  "Incorporating Financial Stability Considerations into a Monetary Policy Framework" Mar., 2014</li> </ul> <b>Watch:</b> <ul style="list-style-type: none"> <li>Video by Bob Pollin on "18 Million Jobs"</li> </ul>		
	Recap & Discussion of the Financial Crisis	21	<ul style="list-style-type: none"> <li>Read: Judd &amp; McGhee on Main Street Partnership Banks</li> <li>Watch Jane D'Arista on "Casino Capitalism"</li> </ul>		<b>Day 23</b>
	The Future of Financial Regulation	22	<b>Read:</b> <ul style="list-style-type: none"> <li>Crotty &amp; Epstein, "Avoiding Another Meltdown"</li> <li>Epstein &amp; Pollin, "Political Economy of the Possible"</li> <li>Epstein at the <i>Triple Crisis</i> blog</li> </ul> <b>Watch: Epstein on the Dodd-Frank bill (via the Real News Network)</b>	<b>Post to Discussion #5: A Third Way for the Fed?</b>  <b>Final Exams</b>	<b>Days 24 &amp; 25</b>