

## ECON 522

### Money and Banking

### Module 2, 2020

#### Course Information

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**Instructor: Marshall Urias**

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Office Hour: Monday & Thursday 5:30 – 6:30pm

**Teaching Assistant: n/a**

**Classes:**

Lectures: Monday & Thursday 3:30 – 5:20pm

Venue: PHBS Building, Room ?

#### 1. Course Description

##### 1.1 Context

**Course overview:** This course focuses on monetary theory, financial intermediation, and central bank policy. The first part of our curriculum develops a theoretical framework used to explain the existence of money and banks. Our theory demonstrates key relationships between the availability of liquid assets, inflation, output, and regulations imposed on banks. Second, we discuss the real world business of banking which includes deposit creation, fractional reserve banking, and the interbank market. Third, we discuss the role of central banks in modern economies and analyse the conduct of monetary policy.

**Technical Requirements:** You are expected to have foundational knowledge in algebra and calculus which includes: arithmetic with rational expressions, build and interpret real valued functions, solve equations and inequalities, exponential and logarithmic functions, differentiation, graphs of functions. Additionally, all students are expected to have basic competence in Microsoft Excel which includes: importing data, manipulating data, writing equations, creating graphs and charts.

##### 1.2 Textbooks and Reading Materials

There is no required textbook for this class. Recommended textbooks are the following:

1. Champ, Freeman, Haslag (2016). *Modeling Monetary Economics*, fourth edition. Cambridge University Press.
2. Mishkin (2016). *The Economics of Money, Banking, and Financial Markets*, eleventh edition. Pearson.
3. Freixas (2008). *Microeconomics of Banking*, second edition. MIT Press.

The first textbook (CFH) provides us with a theoretical framework for understanding money and banking. The second textbook (M) focuses more on real-world applications of banking and the conduct of monetary policy. The third textbook (F) covers classical theories of banking and will be used for some special topics. Refer to the course schedule to see the relevant chapters and topics discussed.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment (YES with details or NO)
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	YES – submit written homework that demonstrate researchoriented analytical thinking
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	YES – demonstrate analytical skills and defend their conclusions on written homework and exams
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	YES – engage in group work during class which may include worksheets, discussions, or presentations
	2.2. Students will be able to apply leadership theories and related skills.	NO
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	NO
	3.2. Our students will practice ethics in the duration of the program.	YES – students are always expected to adhere to high standards of ethics and honesty related to coursework
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	YES – global perspectives on crosscountry differences in financial systems and payment arrangements are tested
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	YES – evaluation of theoretically focused curriculum which outlines the essential features of money and banking
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	YES – discuss the risks that bank managers face and the problems associated with financial instability
	5.3. Our students will demonstrate competency in	YES – problem sets,

	critical thinking.	exams, and in-class learning activities require to students to use the frameworks discussed in class to analyse new problems
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## ***2.2 Course specific objectives***

1. Identify the distinguishing features of fiat money and describe the role it plays in an economy.
2. Characterize the long-run relationship between money supply, inflation, and interest rates and describe the concepts of neutrality and super-neutrality of money.
3. Define standard measures of monetary aggregates including high-powered money, M1, and M2.
4. Describe the primary function of banks, the risks that bank managers face, and the macroeconomic consequences of a functional financial system.
5. State conventional and unconventional tools of monetary policy and describe in general terms the transmission mechanism to the real economy.
6. Articulate the trade-offs governments face in raising revenue through seignorage, taxation, and bond issuances.
7. Describe the way in which the banking sector can be fragile (i.e. prone to runs) and identify a policy that can mitigate systemic risk.
8. Describe how banks provide credit to the economy when investment projects have uncertain returns and monitoring the returns on these projects is costly.
9. Describe the mechanisms by which the financial sector can drive the boom-and-bust cycle of the real economy.

## ***2.3 Assessment/Grading Details***

Your final grade is a weighted average of your performance in the following categories:

Homework 10%  
 News Reports 10%  
 Learning Activities 10%  
 Midterm Exam 30%  
 Final Exam 30%

Please refer to the course calendar for homework due dates and examination dates.

**Attendance:** I will not be taking attendance. However, it is very important that you regularly attend lecture for two reasons: (1) the best source of information to study for exams comes from lecture notes and these arrive only twice per week; (2) there are graded in-class learning activities for which you only receive credit if you attend class. When you are in attendance, please be mindful of appropriate class etiquette. Please do not use electronic devices for any purpose unrelated to class work. Please do not work on materials related to other classes. You may not take pictures in class or use any audio/visual recording device.

**Learning Activities:** Most weeks you are expected to participate in a learning activity. These may include worksheets, group discussion, outside readings, quizzes etc. These activities are intended to help you understand and work with the material presented during lecture. They are meant to be collaborative so please be prepared to engage in group work. Your work will be submitted the same day the activity is completed in class.

**Homework:** There are two homework assignments throughout the module. Assignments will include both analytical problems and data-driven work. You are expected to collect and analyze macroeconomic data procured from publicly available sources. These assignments will be rather lengthy so you should plan accordingly. Homework should be submitted at the beginning of class on the due date. Late submissions delivered before the end class will receive a 10% penalty. Late submissions delivered within 24 hours will receive a 50% penalty. No credit will be given for any submissions delivered after 24 hours.

**News Reports:** Every 2 weeks you will write a report that summarizes and analyzes a news event related to money and banking. The report should be at least 500 words and discuss a news event that occurred within the past one year. You can discuss a wide range of topics, but it must be related in some way to money and banking. More than anything, I want you to demonstrate a critical reading of a news article and form an opinion about the news event.

**Exams:** There is one midterm and one final exam. The midterm will have two components: (i) multiple choice questions worth 25 points and (ii) short-answer questions worth 75 points. The final exam will only be short-answer questions worth 100 points. Please refer to the grading schedule above to see how each exam is weighted toward your final grade. Please refer to the course schedule below for exact exam dates.

**Test-Makeups:** It is your responsibility to observe the scheduled examination dates. If you know that you will miss a test, you must email and/or hand me a valid written explanation before the test date. If you do not notify me before the test date, then there will be no makeup opportunity.

**Grade Changes:** For examinations only, you are allotted one week to submit a written petition for a grade change. In the petition, you must specify the question(s) you are debating, the reason(s) you lost points, and why you think the grade assigned was incorrect. I will not entertain any requests made after the one-week deadline. Final course grades may not be petitioned. Course Communication: Course communication will be conducted mostly through the TA using WeChat and CMS. Any direct correspondence with me should be done via email or during office hours.

**Final Grades:** Your final grade will be determined by the following percentage scale.

A 90-100 (4.0 GPA)	A- 87-89 (3.7 GPA)	B+ 83-86 (3.3 GPA)	B 80-82 (3.0 GPA)	B- 76-79 (2.7 GPA)	C+ 73-75 (2.3 GPA)
C 70-72 (2.0 GPA)	C- 67-69 (1.7 GPA)	D+ 63-66 (1.3 GPA)	D 60-62 (1.0 GPA)	F 0-59 (0.0 GPA)	

Note that you must earn a grade of D or higher to receive credit.

## ***2.4 Academic Honesty and Plagiarism***

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

## ***2.5 Classroom Behavior***

I expect all students to be professional and courteous during classes. As part of this, you should not use computers, phones, or any other electronic devices during class. I will print and distribute all slides beforehand, so there is no reason you will need to use electronics. Also, audio and video recording is strictly prohibited. You are forbidden from taking pictures unless given explicit permission.

### **Topics, Teaching, and Assessment Schedule**

<i><b>Date</b></i>	<i><b>Material</b></i>	<i><b>Textbook Chapters</b></i>	<i><b>Homework Due Date</b></i>
Week 1 (11/19)	Introduction to Money, Banking, and Liquidity	M 1, 2	
Week 2 (11/23)	Overlapping Generations Model of Money	CFH 1, 2; M 3	
	Money, Inflation, and Assets	CFH 4, 7; M 19	
Week 3 (11/30)	Government Spending and Inflation		
	A Model of Banking	CFH 8, 9, 10	Homework 1 Due 12/03
Week 4 (12/07)	The Business of Banking	M 9, 10, 11	
	Central Banking/Conduct of Monetary Policy	M 14, 15, 16, 17	
Week 5 (12/14)	Midterm 1 (12/24)		
	Diamond-Dybvig Model of Banking	F 2.2, 7.1-1.4	
Week 6 (12/21) <sup>1</sup>	Monitoring Role of Banks		
Week 7 (12/28)	Financial Intermediaries and Business Cycles		
Week 8 (01/04)	Financial Intermediaries and Monetary Economics		Homework 2 Due 01/07
Week 9 (01/11)	Market-Based Financial Intermediaries and Shadow Banking		
Week 10 (01/18)	Review		

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<sup>1</sup> Class on December 21 (Monday) is moved to December 23 (Wednesday) with the same time and classroom to accommodate the New Year Party.

### Final Examination – January 21, 3:30pm, Room 231

Note: Curriculum for this course strives to provide theoretical models of money and banking as well as real-world analysis of the banking sector and monetary policy. Chapters from CFH are more theoretical and provide a unified framework for thinking about the key elements of money and banking. Chapters from M and academic papers connect our theory to the real banking sector and focus on bank balance sheets, fractional reserve banking, the conduct of monetary policy, and operations of the financial system.