

Syllabus
Economics 4334: Money and Banking
Fall 2016
Tuesday and Thursday, 9:00-10:20 PM

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Course Description Increasingly, the monetary policy decisions of central banks around the world are seen as crucial for outcomes in global financial markets. In major economies, such as the USA, Japan, the EU, the UK and others, central banks focus on setting short-term interest rates. Their decisions to adjust interest rates have enormous and closely watched impacts on stock markets, bond markets, and banking markets. The first part of this course will focus on understanding how central banks use their powers, the macroeconomic theory that underlies the decision making of central banks and their effect on the economy and financial markets.

Though standard economic theory may imagine financial markets as operating according to rules of competitive supply and demand, in fact, distinct financial intermediaries such as banks are essential for the smooth operation of markets. In the second half of the class, we will focus on the economics and institutions of banking.

In both parts of the course, special attention will be paid to the particular institutions and history of Hong Kong's monetary and banking systems.

Course Objective The objective of the course will be to use the: 1) solid foundation in economic theory; and 2) mathematical and quantitative skills; that they have acquired in previous economics coursework to the analysis of the different tasks of central banking. The course will emphasize the pursuit of the following program-level academic and professional (AP) outcomes: AP4) Ability to apply economic concepts to explain real-world phenomena; AP5) Understanding of institutions and policies; and AP6) Potential to contribute to the development of Hong Kong as an international financial center

Learning Outcomes The course will cover different facets of central banking policy. The students will be able to:

1. analyze and describe the long-term and short-term social goals of central bank policy makers. {AP4; AP5}
2. read central bank policy documents and evaluate the immediate impacts of central bank policy changes on financial markets. {AP5; AP6}
3. scrutinize commercial bank balance sheets and evaluate profitability and systemic financial stability {AP4; AP6}
4. use algebraic and geometric modeling to evaluate the effects of central bank policy on asset prices. {AP4; AP6}

Course Materials

This course will follow Frederic S. Mishkin “*The Economics of Money, Banking, and Financial Markets.*” Eleventh Edition, Pearson.

Attendance is not mandatory for the course. However, mature behavior is a course requirement. Engaging in behavior that disturbs the class will result in a reduction in the course grade.

Course Requirements The grading will be based on homework assignments, an in-class mid-term exam, and a final exam. The dates are as yet advisory and will be updated throughout.

Assignment	Assigned	Due	Grade
1	September 15 th	September 22 rd	5%
2	September 29 th	October 6 th	5%
3	November 3 rd	November 10 th	5%
4	November 17 th	November 24 th	5%

Exam	Date	Grade
Mid-term	October 18 th	30%
Final	TBA	50%

Course Outline

1. Introduction to Money (Chap 3; Chap. 15, 386-388;)
2. Loanable Funds and Interest Rates (Chap. 4; Chap. 5, Appendix 3)
3. Economics of Financial Intermediation (Ch. 8)
4. Business of Banking (Ch. 9)
5. Banking Regulation (Ch. 10)
6. Banking Industry (Ch. 11)
7. Central Banks Structure (Chap. 14)
8. Money Channel (Chap. 15, 388-410; Chap 20, 534-537)
9. Interest Rate Channels (Chap. 16, Chap. 5, 146-156; Chap. 6, 168-178)
10. Monetary Policy Transmission Mechanism (Chap 22-24; Chap 17, 457-460)
11. Central Bank Strategy (Chap. 17)
12. Exchange Rates (Chap 18 -19)
13. Financial Crises (if time, Chap. 12-13)