

**Syllabus**  
**HKUST Department of Economics**  
**Economics 4334: Money and Banking**  
**Fall 2020**  
**Tuesday and Thursday, 9:00-10:20 PM**

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Wednesday 11:00am-12:00 pm

**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.*” Twelfth 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, a group presentation and related paper, an in-class mid-term exam, and a final exam. The dates are as yet advisory and will be updated throughout. Students can work with 1 or 2 partners on homework.

Assignment	Assigned	Due	Grade
1	September 17 <sup>th</sup>	September 24 <sup>th</sup>	4%
2	October 1st	October 8 <sup>th</sup>	4%
X	September 15 <sup>th</sup>	October 22 <sup>nd</sup>	4%
Midterm		October 20th	20%
3	November 5 <sup>th</sup>	November 12 <sup>th</sup>	4%
4	November 24 <sup>th</sup>	December 2 <sup>nd</sup>	4%
Presentation	September 22 <sup>nd</sup>	Dec. 3rd-5th	15%
Paper	September 22 <sup>nd</sup>	Dec. 5 <sup>th</sup>	10%
Final		TBA	35%

## Course Outline

1. Intro to Money (Ch. 1, 72-4, 77; Ch. 3)
2. Central Banks Operation (Ch. 15, 388-94; Ch. 16)
3. Monetary Policy and Financial Markets (Ch. 6; Ch.7, 191-196)
4. Central Bank Strategy (Ch. 17; Ch. 22, 570-574 ; Ch. 23, App. 4; Ch. 24, 637-652; Ch. 25, 664-670; Ch. 26)
5. Exchange Rates (Ch. 17 -18)
6. Economics of Financial Intermediation (Ch.4, 114-8, 124; Ch. 8)
7. Business of Banking (Ch. 9)
8. Banking Regulation & Macroprudential Instruments (Ch. 10)
9. Banking Industry (Ch. 11)

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1. Financial Crises & Macroprudential Instruments (Ch. 12-13; )

## Group Monetary Policy Analysis Report

The global economy has been impacted by the COVID 19 virus. Students will present a group analysis of the monetary policy response to COVID by a single country's central bank over the last year. The analysis will have two parts. Each student must write a written report on a particular aspect of the policy report. The group will combine their analysis into a presentation that will be presented orally. Students will be assigned to a group of five. Each group is allowed to request the country of their choice if it is still available. However, Hong Kong and M-T-M central banks cannot be chosen. Students will be placed in a group by the instructor, though students may request to be placed with chosen classmates.

### A. Written Project

There will be 5 sub-topics. Each student in the group will be assigned to write 2-3 typewritten double-spaced A4 pages (plus supporting figures and bibliography) on one unique element of monetary policy. These will include:

- i. Central Bank Strategic Framework – The goals and intermediate targets of the central banks's framework.
- ii. Central Bank Implementation Framework – The tools, instruments and operational target used for normal operations.
- iii. Macroeconomic Background – The current macro issues faced by the central bank including the forecasted effects of the COVID situation.
- iv. Monetary Policy Response – Adjustment of conventional and unconventional monetary policy response to COVID.
- v. Macro Prudential and FX Response – Adjustment of financial regulation and forex intervention.

Specific to the situation, the assignment of group topics will have some flexibility. However, the assignments should minimize overlap and maximize relevance.

### B. Oral Presentation

The students will as a group construct a powerpoint presentation combining the results of their analysis. This will be presented in a 10-15 minute Zoom session to the instructor that will be scheduled for December 3-5<sup>th</sup>. Student grades will be based on the clarity, relevance and comprehensiveness of the oral presentation and the accompanying slides, which will be submitted to the instructor.