

**Economics 4334 Money and Banking**  
Department of Economics  
Hong Kong University of Science and Technology  
(Spring 2021 Tu/Th 12:00-1:20)

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**Course Objectives**

This course provides an introduction to money, banking and financial markets. It examines how financial markets work, how financial institutions work, the role of money and the role of monetary policy in an economy.

**Intended Learning Outcomes**

After this course, you should be able to

1. Explain some fundamental concepts and theories in money, banking and financial markets; (PILO 3, 4, 6)
2. Understand the functions of financial markets and financial institutions; (PILO 3, 4)
3. Understand how monetary policy affects the functions of financial markets and financial institutions. (PILO 3, 4)

**Prerequisites**

1. Micro: ECON 3014 or 3133; Macro ECON 2123 or 3123.
2. Students are expected to know elementary calculus and its usual applications to the optimization problems in economics (e.g., ECON 3014 or 3133).

**The course material**

1. Lecture notes.

2. Reference book: *The Economics of Money, Banking and Financial Markets* (9th Ed. Pearson) by Mishkin.

### Grading

The grade is based on (a) the *course work* and (b) *course participation*.

1. The course work consists of homework sets (10%), the mid term exam (30%), and the final exam (60%). The final exam is accumulative. There is no make-up for the mid-term exam. If you have a valid excuse, you are graded proportionately by the work completed. Illness is taken as a valid excuse only if a doctor indicates by a written note that illness affects you to take the exam. Refer to the University's policy for validity of other excuses.

2. The course participation applies to 19 lectures from 17/02 to 04/05.<sup>1</sup> In case that you skip  $n$  of the 19 lectures and you can provide valid excuses for  $m$  skipped lectures, the penalty is to subtract  $\max\{n - \max\{4, m\}, 0\}$  points from the course work.<sup>2</sup> Illness is taken as a valid excuse only if a doctor indicates by a written note that illness affects you to attend a lecture.

(2.1) When you intend to provide an excuse for a skipped lecture, the relevant document should be given to the instructor within two days after the lecture is over.

(2.2) When you attend a lecture by zoom, you should turn on video to be counted for participation—if your video is off for at least 15 minutes accumulatively during the lecture, then it will be treated as skipping the lecture.

### Reminder

That you need a certain grade for some purpose is not a reason to assign you this grade, while it should be an incentive for you to earn the grade. Your grade is based on your performance, which, in turn, depends on your effort before the final exam but does not on your negotiation skill after the exam. Indeed, there is no post-exam grade negotiation. Needless to say, any pre-exam effort to improve the grade is encouraged.

**Academic integrity:** Cheating and plagiarism are not tolerated. Any violation will be reported to the university. See <http://www.ust.hk/vpaa0/ug-guide/integrity/> for details.

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<sup>1</sup>There is no count on participation during the add-drop period. There is no count on participation for the last lecture, either.

<sup>2</sup>If  $n \leq 4$ , then the penalty is zero even when you do not provide any excuse.

**Course outline** (subject to adjustment if necessary except for the mid-term exam date)

02/02 Introduction and overview  
04/02 Lecture 1  
09/02 Lecture 1  
11/02 Lecture 1  
16/02 Lecture 1  
(Drop end 17/02)  
18/02 Lecture 2  
23/02 Lecture 2  
25/02 Lecture 2  
02/03 Lecture 3  
04/03 Lecture 3  
09/03 Lecture 4  
11/03 Lecture 4  
16/03 Lecture 4  
18/03 Lecture 4  
23/03 *The midterm exam* (in class)  
25/03 Lecture 5  
30/03 Lecture 5  
(Break 31/03-06/04)  
08/04 Lecture 5  
13/04 Lecture 5  
15/04 Lecture 5  
20/04 Lecture 6  
22/04 Lecture 6  
27/04 Lecture 7  
29/04 Lecture 7  
04/05 Review  
06/05 TBA

Lecture 1: Interest rate determination

Lecture 2: The equity price, risk premium, rate-of-return dominance

Lecture 3: Financial intermediation: the asymmetric-information analysis

Lecture 4: Banking, liquidity-provision, and government safety net

Lecture 5: Money, central bank, and conduct of monetary policy

Lecture 6: Monetary policy and foreign exchange rate

Lecture 7: Monetary Policy, fiscal policy, and inflation

**Econ 4670**

A student who intends to fulfill Econ 4670 requirement by writing an essay based on Econ 4334 must discuss with the instructor first about her/his plan and obtain a written permission from the instructor by April 15. The first draft should be submitted by June 10.