

Department of Economics, Washington University

Economics 335 – Money and Banking

Summer 2006

Schedule: MTWThF 1:00 – 4:00 pm

Location: Louderman 461

Instructor: Jacek Suda
jrsuda@wustl.edu
McMillan 348

Office Hours: *by appointment*

Textbook: Hubbard, R. Glenn. 2005 . *Money, the Financial System and the Economy*, 5e.
Boston, MA: Pearson Addison-Wesley

Some additional reading, mostly from magazines and newspapers, may be provided during the semester

Course

Website: <http://artsci.wustl.edu/~e335js>

Prerequisites: Prerequisite for this course Econ 103B and 104B.

Course Description:

This course is an introduction to the U.S. monetary and financial systems. It starts with an overview of asset (money and capital) markets and the role of financial intermediaries. Next, we will develop the principles for understanding the determination of inflation, interest rates, exchange rates, and (real) gross domestic product, as well as the impact of monetary policy, as conducted by the Federal Reserve System, on those variables. The final part of the course will address the special concerns for financial markets when information is not perfect.

Grading:

Grades will be determined by four or five quizzes, a mid-term exams and a cumulative final exam. The maximum number of points in the course is 240.

The mid-term is worth 80 points. The exact dates of the in-class midterms will be confirmed in class with suggested date of Friday, June 1.

The final exam will be cumulative and is worth 120 points. It is scheduled for Friday, June 9, 2006 from 1:00 PM – 4:00 PM in the regular classroom, Louderman 461.

Quizzes are randomly given at the beginning of a lecture, last 10 minutes, and are worth 8 or 10 points.

There will be no makes-up for missed mid-term exams. Only university-approved excuses will be accepted for missing an exam and if you can not attend, notify me **before** the exam. Otherwise exam will be recorded as a zero.

Class participation and attendance will be taken into consideration while assigning the grades.

If you are taking this course P/F or CR/NCR, you must receive a C- or better to receive a 'P' or 'CR.'

Academic Integrity:

You are held to the standards of academic integrity established by Washington University and your individual college. In particular, evidence of cheating on an exam will result, initially, in a failing grade on the exam, and immediate academic disciplinary action. If you ever feel that these standards of academic integrity are not being met, please notify me or an undergraduate advisor immediately. If you are uncertain about the policy on academic integrity at Washington University, refer to your undergraduate advisor, to the university's Student Judicial Procedures, or to your school's statement of student academic integrity. (For ArtSci students, the latter is published each semester in the Course Listings booklet.)

Outline

1. Introduction to Asset (Financial) Markets and Financial Market Intermediaries H 1, 3, 12
Provide an overview of asset (money and capital) markets and the role of financial intermediaries.
2. The Non-Monetary Asset Market (the Bond Market) H 4, 5, 6, 7
Develop principles for understanding the determination of interest rates by explaining the two pieces of the bond market: demand (the supply of loanable funds) and supply (the demand for loanable funds). Also, describe the co-movement of interest rates in the macroeconomy, and assess whether the observed co-movement can allow us to predict interest rates.
3. The Money Market H 8, 2, 19, 23, 18, 20, 17, 21, 22
The money market can be divided into the domestic money market and the foreign exchange market. The first objective will be to describe the determination of foreign exchange rates. Next, we will explain the two pieces of the money market: money demand and money supply. In addressing the latter, we will describe how the Federal Reserve System ("the Fed") is structured and what the Fed can (and cannot) and should (and should not) do. We will also address how monetary policy and the Fed are affected by and affect the foreign exchange market.
4. Money and Macroeconomy H 24, 25, 26, 28
To develop a model (aggregate demand - aggregate supply) which describes another important market in the macroeconomy: the goods market. This will allow us to describe the impacts of monetary policy in the short run (on real gross domestic product -- GDP) and in the long run (on inflation)