

# Course Outline

## **1. Course Number and Title:** Econ202 Money and Banking

**Credits:** 3 hours

**Prerequisites:** None

**2. Course Description:** Our monetary system has grown out of historical circumstances. Economic analysis convinces us that to some extent our institutions cannot be other than what they are. For example, we may not have to use paper currency, but clearly some kind of medium of exchange is essential to any economic system. Once conventions establish themselves as institutions, they dictate what purposes in fact can be served. An important objective of this course is to investigate the principal financial institutions involved in our macroeconomy.

A real economic relationship can be posited between any two things in the world, but the essence of economic wisdom is knowing which of those relationships are in fact important. Monetary institutions can only be understood if one knows the magnitudes of the economic variables associated with them. Awareness of actual statistics will be important to us in learning about monetary institutions. We will look at various data bases to gain perspective about monetary and financial institutions, thereby avoiding being trapped into thinking something is important when it is not.

**3. Course Goals:** Learning is good for its own sake, but it also can have concretely practical usefulness. An objective parallel to that of intellectual development is to gain skill and practice in the analysis of economic situations, events, and policies, particularly those directly involving money, banking, and finance. In addition to these is the objective of liberal education. This is necessarily a quantitative course, dealing as it does with economic variables. Judgments involving material quantities, in which balance must be sought among competing objectives and parameters, are always best arrived at by what we can call "thinking at the margin." Perhaps the most fundamental objective of the course is to enrich the student's skill in making analytical judgments concerning measurable things.

**4. Course Learning Outcomes:** At the end of the course, the student will be able to:

1. Define the concept of the money supply; Distinguish between different types of financial institutions; Locate sources of data measuring macroeconomic performance
2. Identify the functions of the Federal Reserve; Justify the existence of money in the economy; Estimate the impact of monetary variables on real variables
3. Determine the equilibrium interest rate from a given set of market conditions; Predict the change in interest rates resulting from a market change; Distinguish between real and nominal interest rate.
4. Explain why the U.S. has a trade deficit; Describe how and why exchange rates move; Evaluate the impact of capital inflows (and capital outflows)

5. Assess the kinds of risks that derivatives pose; Define the moral hazard problem; List the reasons to deregulate
6. Explain why the economies of scale concept drive mergers; Define and explain hedge funds; Specify the process of making an Initial Public Offering (IPO)
7. Use the Capital Asset Pricing Model (CAPM) as intended; Explain the point of the Dow Jones Industrial Average; Analyze municipal bonds as an investment
8. State pros and cons of the International Monetary Fund (IMF); Illustrate the effect of the money multiplier; Describe how open market operations take place; Determine the equilibrium interest rate from a given set of market conditions; Predict the change in interest rates resulting from a market change; Distinguish between real and nominal interest rates;
9. List determinants of Aggregate Demand and Aggregate Supply; Define and give an example of a stagflation situation; Explain the problem that lags (impact, policy, recognition) present for monetary policy makers
10. Define and name several primary dealers; Provide an example of a policy directive; Discuss the future implications of E-money

## **5. Course Concepts**

1. Definitions of the money supply
2. The Federal Reserve
3. Financial markets
4. Interest rates
5. Exchange rates
6. Regulation of financial intermediaries
7. Debt and equity markets
8. Monetary management by the Federal Reserve
9. Derivatives risk
10. Moral hazard
11. Dow Jones Industrial Average
12. Municipal bonds

## **6. Required Text**

Burton, Maureen & Ray Lombra. *The Financial System & The Economy: Principles of Money & Banking*, 1st ed. Thomson Learning/South-Western, 2003. ISBN-13: 9780324066968

## **7. Recommended Daily Reading**

Daily reading of The Wall Street Journal is strongly recommended.. Students may purchase a fifteen-week subscription to the Internet edition at an approximate cost of \$30.00 by clicking "Student Subscription."