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### ECNS 313.01: Money and Banking

Matthew Taylor

*University of Montana, Missoula*

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# Economics 313: Money and Banking

University of Montana

Department of Economics

Fall 2016

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<b>Instructor:</b> Matt Taylor	Email:	matthew.taylor@mso.umt.edu
Office:	Liberal Arts 406	Office Hours: W 1400 - 1500, R 0930 - 1100
CRN:	74618	Lecture: MWF 1000 - 1050, LA 106
	Prerequisites:	ECNS 202: Principles of <b>Macroeconomics</b> .

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**Course Description:** We will start by carefully defining money and its role in an economy. During this process, you will learn about the financial system and its primary functions. We will then explore interest rates and their behavior. Once we understand these fundamentals we will examine the role of the Federal Reserve and how it conducts monetary policy. We will end the course by exploring monetary theory more deeply. Throughout the course, we will discuss the causes of, and the policy responses to, the recent financial crisis and the post-crisis period.

**Textbook:** Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*. The book is intended to complement the material presented in lecture. You will likely find the lectures to be more valuable if you read the relevant material in the book **before** it is presented in class.

**Course Website: Moodle.** You will be able to access the syllabus, grades, and the homework assignments at this website. Announcements related to the course will also be posted there.

**Grading Policy:** The graded coursework will consist of homework assignments, four midterm exams, reading-assignment quizzes, and a final exam.

**Your final course grade will be determined as follows:**

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20%	Homework
5%	Reading-Assignment Quizzes
12.5%	Midterm Exam #1 (Friday, 16 September 2016)
12.5%	Midterm Exam #2 (Friday, 7 October 2016)
12.5%	Midterm Exam #2 (Friday, 28 October 2016)
12.5%	Midterm Exam #3 (Friday, 18 November 2016)
25%	Final Exam (Tuesday, 20 December 2016 at 8:00 AM)

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### Homework:

- I will post the assignments as PDF files under the *Assignments* tab on the course website. The due date for these assignments will be posted at the top of the assignment and they will be due at the beginning of lecture on the designated date. The assignment with the **lowest percentage score will be dropped** from your homework grade.

Assignments submitted more than ten minutes after the lecture's schedule start time will receive a five percentage point penalty on that assignment. Assignments submitted after the end of the lecture's scheduled end time will receive a ten percentage point penalty. A ten percentage point penalty will be incurred for each additional day thereafter.

A fraction of the assigned question will be randomly chosen for grading. These randomly chosen questions will determine your grade for that assignment. No less than half of the questions will be graded. In other words, if the assignments has three questions, at least two will be randomly selected for grading. If the assignment has ten questions, at least five will be graded.

At the grader's discretion, up to ten percentage points may be deducted for homework that is unstapled, disorganized, or without a name. Illegible handwriting will be scored as incorrect—after all, it is illegible.

**Reading-assignment quizzes:** I will assign approximately eight short readings (typically news or blog articles) that you will be expected to read by a designated day. I will also provide you with three to five questions about the reading. During lecture, after the designated date, one of these questions will be selected at random and you will submit your response in writing.

The questions will be designed so that a response of two or three sentences will be sufficient. Potentially, a single word or number could be sufficient to get full credit.

The responses will be graded in the following way:

*No response/Unrelated response = 0*

*Attempted but incorrect = 1*

*Correct = 2*

**Exams:** All exams are cumulative. **No makeup midterm exams will be given.** In the case of a missed midterm due to emergency situations, the student may be allowed to put the weight of the missed exam on the final exam, provided I am notified as soon as possible and verification of the emergency is provided to me by phone, voice mail, or email, no later than 24 hours after an exam. A missed final due to an unanticipated emergency may be handled with an “incomplete” for the course at my discretion and in accordance with University policies. **Do not take this class if you know that you cannot make one of the scheduled exams.**

**Attendance:** The textbook is not a substitute for lectures and you will be held responsible for all topics covered in lectures. You may not use my office hours as a substitute for class time.

**Students with Disabilities:** If you are a student with a disability who will require reasonable program modifications in this course, please meet with Disability Services for Students in Lommasson 154 for assistance in developing a plan to address program modifications. If you are already working with Disability Services arrange to meet with me during my office hours to discuss reasonable modifications that may be necessary. For more information, visit the Disability Services website at <http://www.umt.edu/disability>.

**Drops and Credit/No-Credit:** The University has deadlines and policies applicable to dropping the course and changing your grading option. Request to make changes must be in accordance with University policy and deadlines. **In accordance with University policy, students taking the course credit/no credit must earn a D- or better to receive credit.**

**Academic Integrity:** All students must practice academic honesty. Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students need to be familiar with the Student Conduct Code. The Code is available for review online at [http://life.umt.edu/vpsa/student\\_conduct.php](http://life.umt.edu/vpsa/student_conduct.php).

**Outline of Course Material:** The following is a tentative schedule of lectures and associated reading from the text. Additional readings will be assigned throughout the course. The schedule should be viewed as tentative and may be subject to change throughout the term.

### **Part I: Introduction**

- Why Study Money, Banking, and Financial Markets? (Reading: Chapter 1)
- An Overview of the Financial System (Reading: Chapter 2)
- What is Money? (Reading: Chapter 3)

### **Part II: Financial Markets**

- Understanding Interest Rates (Reading: Chapter 4)
- The Behavior of Interest Rates (Reading: Chapter 5)
- The Risk and Term Structure of Interest Rates (Reading: Chapter 6)

### **Part III: Financial Institutions**

- Financial Crises (Reading: Chapter 9)
- Banking and Management of Financial Institutions (Reading: Chapter 10)
- Economic Analysis of Financial Regulation (Reading: Chapter 11)
- Banking Industry: Structure and Competition (Reading: Chapter 12)

### **Part IV: Central Banking and the Conduct of Monetary Policy**

- Central Banks and the Federal Reserve System (Reading: Chapter 13)
- The Money Supply Process (Reading: Chapter 14)

- The Tools of Monetary Policy (Reading: Chapter 15)
- The Conduct of Monetary Policy: Strategy and Tactics (Reading: Chapter 16)
  - Fed Policy Procedures: Historical Perspective (Reading: Chapter 16 Appendix)

**Part V: International Finance and Monetary Theory**

- The Foreign Exchange Market (Reading: Chapter 17)
  - The Interest Parity Condition (Reading: Chapter 17 Appendix)
- The International Financial System (Reading: Chapter 18)

**Part VI: Monetary Theory**

- Quantity Theory, Inflation, and the Demand for Money (Reading: Chapter 19)
- The IS Curve (Reading: Chapter 20)
- Monetary Policy and Aggregate Demand Curves (Reading: Chapter 21)
- Aggregate Demand and Supply Analysis (Reading: Chapter 22)
- Monetary Policy Theory (Reading: Chapter 23)

**Students who successfully complete this course will have:**

1. Be able to explain the United States monetary system and describe the institutions that affect the money supply.
2. Be able to demonstrate an understanding of how the U.S. banking system works.
3. Be able to clearly explain the role of the Federal Reserve System in the economy and explain the tools that the Federal Reserve System uses to control the money supply.
4. Be able to explain and apply the standard models of monetary economics and use a monetary model to evaluate the monetary policy of a central bank.
5. Be able to describe and explain the main controversies, issues, and debates in the field of monetary economics.