

University of Toronto
Department of Economics

ECO349 H1 S, Section L0101
Money, Banking, and Financial Markets

Winter 2013

Instructor: Prof. George J. Georgopoulos
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Class time and location: Wed., 4-6pm , FG103; tutorials: Wed., 6-7pm
Office hours: Wed., 3-4, room 344, Economics Department, 150 St. George St., or by appointment

Required Text: Frederic Mishkin, Apostolos Serlitis: *The Economics of Money, Banking, and Financial Markets*, 4th Canadian Edition, Pearson Publishers. This text will be used extensively during the course and can be purchased at the University of Toronto Bookstore.

Grading:

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|--------------------------------|-----|
| Midterm: Feb. 27, 2013 | 35% |
| Assignment: April 5, 2013, 2pm | 15% |
| Final Exam: T.B.A. | 50% |

The makeup test will be held on March 6, 2013, 6-8pm, in a room TBA. To write the makeup, an original University of Toronto Medical Certificate is required if you miss the midterm, otherwise you will receive a mark of zero. The Certificate form can be downloaded at:

<http://www.artsci.utoronto.ca/current/undergraduate/course/timetable/2006-2007-fall-winter-timetable/medcert.pdf/view>

The drop deadline is March 10, 2013.

Prerequisites:

The Department of Economics checks for prerequisites in all Economics courses and students who do not meet them WILL be removed from the course. If you are not sure what the prerequisites for any courses are, check http://www.artsandsciences.utoronto.ca/ofr/calendar/crs_eco.htm. Students who wish to use courses completed at another institution or UTSC for prerequisite purposes must submit an official transcript from that institution to Ms. Robbie Innes (Undergraduate Administrator) or Ms. Jenny Fan (Commerce Assistant) at the Department of Economics PRIOR TO ENROLLING.

The study of money and banking is essentially the study of the role and function of monetary aggregates in the economy, and the study of financial markets - that is, money, bond and stock markets and their interrelationships. This course will employ economic principles to organize and analyze the structure of financial markets.

This course will also study the role of the central bank, which includes its use of monetary policy to control growth and fluctuations in the Canadian economy through the chartered banking system. Furthermore, given the high degree of global financial market integration, we will also investigate the links between Canada's financial system and the international financial system.

With the onset of the subprime financial crisis, a money and banking course would not be complete without an extensive analysis of why financial crises occur. This course will use economic analysis of the effects of asymmetric information on financial markets and the economy.

Lecture Material

Along with the textbook readings below, I will be posting lecture slides and other course material (including journal articles for required reading) on the University of Toronto's Blackboard Portal. Please visit this site regularly (at least bi-weekly) for recent postings and announcements. Related readings are in italics.

Chapter 1. Why Study Money, Banking, and Financial Markets?

-Milton Friedman, *"Dollars and Deficits"* (Upper Saddle River, N.J.: Prentice Hall, 1968)

Chapter 2. An Overview of the Financial System

-World Federation of Exchanges, *2008 Market Highlights*, www.world-exchanges.org/statistics
-*"Down on the Street"*, *The Economist*, Nov 25, 2006, pp69-71
-Colin Mayer, *"Financial Systems, Corporate Finance, and Economic Development"*, in *Asymmetric Information, Corporate Finance, and Investment*, ed. Glenn Hubbard (Chicago: University of Chicago Press, 1990, pp. 307-332.

Chapter 3. What Is Money?

- Tracy Chan, Ramdane Djoudad, and Jackson Loi, *"Changes in the Indicator Properties of Narrow Monetary Aggregates"*, *Bank of Canada Review (Summer 2005)*: 3-10
- James Powell, *"A History of the Canadian Dollar"*, Ottawa: Bank of Canada, 2005

Chapter 4. Understanding Interest Rates

- *"Timing is big question for more U.S. stimulus"*, *Globe and Mail*, Oct. 3 2010,
<http://www.theglobeandmail.com/report-on-business/economy/timing-is-big-question-for-more-us-stimulus/article1740337/>

Chapter 5. The Behaviour of Interest Rates

Chapter 6. The Risk and Term Structure of Interest Rates

Chapter 8. An Economic Analysis of Financial Structure

- Mark Gertler, *"Financial Structure and Aggregate Economic Activity: An Overview"*, *Journal of Money, Credit and Banking* 20 (1988): 559-588.

Chapter 9. Financial Crises and the Subprime Meltdown

-Reinhart, V. , “A Year of Living Dangerously: The Management of the Financial Crises in 2008”, *Journal of Economics Perspectives*, Winter 2011, Vol. 25, No.1.

-Mishkin, F., “Over the Cliff: From Subprime to the Global Financial Crisis”, *Journal of Economics Perspectives*, Winter 2011, Vol. 25, No.1.

-Rajan, R.G., “Has Financial Development Made the World Riskier?”, *The Greenspan Era: Lessons for the Future*, pp. 313-69. Kansas City: Federal Reserve Bank of Kansas City, 2005.

- Thomas C. Baxter, Jr. “Too Big to Fail: Expectations and Impact of Extraordinary Government Intervention and the Role of Systemic Risk in the Financial Crisis” , Sept 1. 2010. New York Federal Reserve Bank, <http://www.newyorkfed.org/newsevents/speeches/2010/bax100901.html>

-Thomas C. Baxter, Jr., “ What the Fed did and Why”, June 2010, New York Federal Reserve Bank, <http://www.newyorkfed.org/newsevents/speeches/2010/tra100625.html>

-Markus Brunnermeier, “Deciphering the Liquidity and Credit Crunch 2007-2008”, *Journal of Economics Perspectives*, Vol. 23, Number 1, Winter 2009, pp. 77-100.

-Ricardo Caballero and Pablo Kurlat, “Flight to Quality and Bailouts: Policy Remarks and a Literature Review”, MIT Department of Economics Working Paper 08-21. Oct. 2008

-Phillip Swagell, “The Financial Crisis: An Inside View”, *Brookings Paper* (March 30, 2009).

Chapter 10. Economic Analysis of Financial Regulation

-A. Demirguc-Kunt and E. Kane, 2002 “Deposit Insurance around the Globe: Where Does it Work?”, *Journal of Economic Perspectives* 16(2), pp 175-95.

Chapter 12. Nonbank Financial Institutions

Chapter 13. Banking and the Management of Financial Institutions

Chapter 14. Risk Management with Financial Derivatives

Macroeconomic Influences, Debt, Deficit, and The Euro

Bernanke, Ben S. and Mark Gertler. 1995. “Inside the Black Box: The Credit Channel of Monetary Policy Transmission” (in Symposia: The Monetary Transmission Mechanism) *The Journal of Economic Perspectives*, Vol. 9, No. 4. (Autumn), pp. 27-48.

Chapter 17. Tools of Monetary Policy

- *Walter Engert, Toni Gravelle, and Donna Howard, "The Implementation of Monetary Policy in Canada", Bank of Canada Discussion Paper 2008-9*

Chapter 19. The Foreign Exchange Market

- *Bank of Canada, "Intervention in the Foreign Exchange Market:", Bank in Brief, August 21 2009.*
- *Stanley Fisher, "Exchange Rate Regimes: Is the Bipolar View Correct?", Journal of Economics Perspectives 15, no.2 (Spring 2001), pp. 3-24*

Chapter 20. The International Financial System

- *Sebastian Edwards, "How Effective are Capital Controls?", Journal of Economics Perspectives, Winter 2000, Vol. 13, no.4, pp.65-84*