

Department of Economics
University of Toronto
ECO349H1S (Section L5101)
Money, Banking, and Financial Markets
Winter 2020

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Office Hours: Tuesday, 4-5:45 pm, or by appointment

Room 242, Department of Economics, 150 St. George St.

Class times and location: Tuesdays, 6-8 pm, and Thursdays, 12-1pm, Room RW 117

Lectures will *usually* be two hours per week (Tuesdays, 6-8 pm). The third hour each week (Thursdays, 12-1pm) will be used to work through textbook questions and discuss the group assignment.

Course Description and Topics:

This course explores a wide range of topics involving financial institutions and financial markets, and the links between the financial sector and the central bank. We examine the importance of money, banks and other financial institutions in the economy, and how information asymmetries and regulation have shaped their evolution. Topics surveyed include the role of money and the financial system in promoting economic welfare, the behaviour of bond and stock market prices and investment returns, what commercial banks do, and the goals and tools of central banks. This course studies the role of the central bank, which includes its use of monetary policy to affect growth in the Canadian economy. Furthermore, given the high degree of global financial market integration, we also investigate the links between Canada's financial system and the international financial system, in part through exchange rate movements.

TOPICS:

- What is the role of money?
- The bond and stock market, and the allocation of savings through financial markets
- The behaviour and term structure of interest rates
- Rational expectations and the efficient market hypothesis
- Financial institutions, risk and regulation
- Banking and financial crises
- Central banks and the conduct of monetary policy
- The foreign exchange market and the determination of exchange rates

Learning objectives:

- Gain a better understanding of the Canadian banking sector, financial markets and their interaction with the broader economy
- Increase familiarity with how financial markets, such as bond and stock markets, operate, and learn how they may promote economic efficiency
- Gain a better understanding of the role of the central bank and how monetary policy can influence growth and fluctuations in the economy
- Learn about the functions of money, why and how it promotes economic efficiency, and discover how its form has evolved over time
- Gain a better understanding of how changes in interest rates affect consumers, businesses, financial institutions, and the overall economy
- Understand how foreign exchange markets operate and why exchange rates are important, and the main factors that affect exchange rates in the long run
- Gain a better understanding of how financial systems around the world contributed to the decade-old global financial crisis and great recession
- Improve competence working with economic and financial market data
- Communicate effectively in written work

Prerequisites:

Prerequisites are strictly checked and enforced and must be completed before taking a course. The instructor cannot waive prerequisites:

<http://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>

By taking this course, you acknowledge that you will be removed from the course at any time if you do not meet all requirements set by the Department of Economics. Further information can be found in the 2018-2019 Courses Calendar which is available from the Registrar's Office.

Required e-Text:

The Economics of Money, Banking, and Financial Markets, 7th Canadian Edition, Frederic Mishkin, Apostolos Serlitis. Pearson Publishers. The e-text will be used extensively during the course. Students can purchase an access code from the bookstore.

Students may use the 6th Canadian edition of the textbook, given the limited changes and only slight increase in new content in the new e-text, but they are responsible for all new content included in the 7th Canadian Edition of "The Economics of Money, Banking, and Financial Markets" (Mishkin and Serlitis).

The following chapters of the *e-text* will be covered:

- Chapter 1 - Why Study Money, Banking, and Financial Markets? (Including Appendix)
- Chapter 2 - An Overview of the Financial System
- Chapter 3 - What is Money?
- Chapter 4 - The Meaning of Interest Rates
- Chapter 5 - The Behaviour of Interest Rates
- Chapter 6 - The Risk and Term Structure of Interest Rates
- Chapter 7 - The Stock Market, Rational Expectations, Efficient Market Hypothesis
- Chapter 8 - An Economic Analysis of Financial Structure
- Chapter 9 - Economic Analysis of Financial Regulation
- Chapter 10 - Banking Industry: Structure and Competition
- Chapter 11 - Financial Crises
- Chapter 14 - Central Banks and the Bank of Canada
- Chapter 16 - Tools of Monetary Policy
- Chapter 17 - The Conduct of Monetary Policy: Strategy and Tactics
- Chapter 18 - The Foreign Exchange Market

Along with the e-text readings, I will post my lecture slides and other course material (including journal articles for required reading) on the Quercus course portal. Please visit this site regularly for recent postings and announcements.

Tools for Developing Learning Outcomes:

The course employs economic models and a framework to understand the economics of money, banking and financial markets. The theory of informational economics, principal-agent theory, moral hazard and adverse selection will be used to understand the functioning of financial institutions and financial markets. The theoretical links between the financial sector and the real sector of the economy will be examined to get an understanding how banks and financial markets contribute to economic growth and business cycles. The course will discuss monetary theory, the functions and roles of the central bank, to gain an understanding of the interactions between the central bank and financial institutions. There will also be in-class discussions on current developments in financial markets, the Bank of Canada and Federal Reserve interest rate announcements, regulatory changes for banks and financial markets, and personal finance topics.

The course also involves a group assignment that asks students to write a policy paper and provide a monetary policy recommendation (e.g., in light of a large hypothetical adverse shock to the global economy including spillovers to the Canadian economy).

Grade allocation:

The final grade in the course will be determined as follows:

(1) Midterm (during class time on February 11, 2020, 6-8pm), 20% of total course grade

(2) Group Assignment (Deadline: March 24, 2020, 6pm), 30% of total course grade

- The group assignment will require students to write a paper. Each student will be expected to write at least one section (or between 1000-1500 words) of the paper (5000-6000 words, excluding charts, footnotes, and the bibliography). Each group must have at least three and at most five members.
- The instructor can assist students organise a group, if necessary.
- Groups must be created and reported in Quercus (See <https://q.utoronto.ca/courses/46670/pages/group-tool-student-view>) by January 28th at 6pm.
- Each group must submit their assignment through the Quercus course portal.

(3) Final Exam: The exam will be scheduled by the Faculty of Arts and Science on a date during the official exam period. **The exam will cover the entire course and is worth 50% of total course grade.**

Assignment - Writing Resources:

1. All undergraduate students taking courses in the Faculty of Arts and Science are eligible to work with the writing centre at the college or campus where they are registered. For information about writing centre appointments visit <https://writing.utoronto.ca/writing-centres/arts-and-science/>.
2. To learn more about how writing centres work, students may visit <http://writing.utoronto.ca/writing-centres/learning/>.
3. More than 60 Advice files on all aspects of academic writing are available from <http://advice.writing.utoronto.ca>. Printable PDF versions are listed at <http://advice.writing.utoronto.ca/student-pdfs/>.
4. Students should read "How Not to Plagiarize" and other advice on documentation format and methods of integrating sources. These pages are all listed at <http://advice.writing.utoronto.ca/using-sources/>.

Communication:

All course materials and announcements will be posted on Quercus. The course instructor will only read emails sent through the course portal for record-keeping and identification purposes. The instructor will only respond to email posing questions that can be answered in a sentence or two; otherwise you should see the instructor during his office hours.

Re-Marking, Missed Test, Late Assignments, On-Line Assignment Submission:

Re-marking of the Midterm will be granted if the test is returned for a re-read within one week after it has been returned to the class. Students must provide in writing and with specificity any questions or concerns with the grading. Please be advised that the marker may re-read and re-mark the entire test.

There is no makeup Midterm test: If you missed the midterm, provided you have proper medical documentation, the weight of your final exam will be 70% and the assignment 30%. An original Verification of Student Illness or Injury complete and signed form is normally required if you miss the midterm, otherwise you will receive a mark of zero. The Verification of Student Illness or Injury form can be downloaded at:

<http://www.illnessverification.utoronto.ca/index.php>

Late Assignment Policy: There will be a 10% penalty of the total assignment mark *per day* (including weekends) for a late assignment. If a group anticipates missing the assignment deadline due to uncontrollable circumstances, they should contact the course instructor at least 7 days in advance to explain the situation for consideration. Students may be required to submit supporting documentation at the discretion of the instructor. The reallocation of grades for assignments missed for legitimate reasons will be made at the discretion of the instructor. Term papers handed in *after* the work has been returned to the class cannot be marked for credit. Accommodations due to late registration into the course will *not* be approved.

Online Submissions of Term Assignment: Each group must submit their assignment on-line through the Quercus course portal. It is every student's responsibility to ensure that their online submission is submitted successfully by the due date. Accommodations will not be made for unsuccessful submissions due to, but not limited to: i) the system timing out; ii) submitting the incorrect document(s); and iii) poor internet connection / no internet connection etc.

Normally, students will be required to submit their course assignment to Turnitin.com (via the Quercus course portal) for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site. If you have an objection to the use of Turnitin for the submission of your work, please make an appointment to speak personally with the course instructor to discuss alternative arrangements.

Academic Integrity, Accessibility & Help:

For accessibility concerns, visit <http://www.studentlife.utoronto.ca/as>. If you have trouble, seek help right away from us, your College Registrar, and/or the Academic Success Centre; See <http://www.studentlife.utoronto.ca/asc>.

Academic Integrity applies to every member of the University; Please see <http://www.artsci.utoronto.ca/osai> for more information.

For any issues that extend beyond our course, contact your College Registrar immediately. Please read the University of Toronto rules and policies dedicated to fostering a safe and secure environment in which the learning and scholarship of students may flourish.

The information at <https://www.viceprovoststudents.utoronto.ca/students/> provides an overview of these rules & policies, and outlines expectations the University has for its students. You will find a directory of the policies, guidelines, publications, and resources that relate to your work and conduct as a student at the University of Toronto:

- Accommodations Religious Observances
- Academic Accommodations
- Code of Student Conduct
- Code of Behaviour on Academic Matters
- Discrimination
- Freedom of Speech
- Sexual Violence & Sexual Harassment Prevention and Support
- University-Mandated Leave of Absence Policy
- Alcohol
- Obstruction
- Use of Technology

The information provides an overview of these rules & policies, and outlines expectations the University has for its students. The University of Toronto has rules and policies to guide and protect its constituents. The University also offers resources to support its students, to help them take full advantage of opportunities available to them and is dedicated to fostering a safe and secure environment in which the learning and scholarship of students may flourish. It is your responsibility as a student at the University of Toronto to familiarize yourself with, and adhere to, both the Code of Student Conduct and the Code of Behaviour on Academic Matters.