

University of Toronto
Department of Economics

ECO349 H1S, Section L0101
Money, Banking, and Financial Markets

Winter 2022

Instructor: Prof. George J. Georgopoulos
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Class time and location: Tuesday, 6-8pm, LM 161

Grading:	Midterm: February 15, 2022	35%
	Assignment: April 10, 11pm, 2022	15%
	Final Exam: T.B.A.	50%

Required Text: Frederic Mishkin, Apostolos Serlitis: *The Economics of Money, Banking, and Financial Markets*, 7th Canadian Edition, Pearson Publishers. This text will be used extensively during the course.

eText Purchase from UofT Bookstore site

The e-text version of the book can be purchased at the University of Toronto Bookstore; below is the link. The MyEconlab option for the textbook is not mandatory, but it does have more practice questions and solutions on the textbook material if you want more of such material. Below is the link to buy the e-text from the UofT Bookstore:

ECO349

https://www.campusbookstore.com/integration/AccessCodes/default.aspx?bookseller_id=96&Course=STG+ECO349+ECONOMICS+OF+MONEY%2c+BANKING+AND+FINANCIAL+MARKETS&frame=YES&t=permalink

Communication:

I will be using Quercus to post all communication and announcements, along with posting lecture material (the lecture notes will be posted in the “Modules” section of the course site in Quercus). Any

course material related questions should be sent in the “Discussions” page in Quercus, where the TA will respond to your questions. You can email me any course problems (missing information, typos, course structure questions) through the Quercus email system.

There will be a weekly online TA office hour where you can ask the TA about course material. The TA office hour is Thursdays, 4-5pm. The Zoom link for this office hour is in the “Announcements” section on Quercus.

Missed Midterm and Late Assignment Policy:

If you miss the midterm, the midterm weight will be shifted to the final exam.

The appeal period for term work is two weeks from the day you receive your graded work.

There will be a 5% penalty per day for a late assignment.

Prerequisite: [ECO200Y1/ECO204Y1/ECO206Y1](#); [ECO202Y1/ECO208Y1/ECO209Y1](#); [ECO220Y1/ ECO227Y1/ \(STA237H1, STA238H1\)](#)/ [\(STA247H1, STA248H1\)](#)/ [\(STA257H1, STA261H1\)](#)

Exclusion: ECO348H5/ECO349H5

The Department of Economics checks for prerequisites in all Economics courses and students who do not meet them WILL be removed from the course

Course Scope:

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.

Learning Outcomes:

By the end of this course, students will be able to:

Understand the economic structure of financial markets and institutions;

Identify the central role of information economics on the proper functioning of financial markets, along

with understanding the causes of financial crises;

Understand the central role of well-functioning financial markets in contributing to economic growth and the well-being of a country;

To understand the role of monetary theory and the Central Bank in financial markets;

To have up to date knowledge of the current events in the Canadian and rest of world financial systems;

Properly analyze and communicate current issues in financial markets.

Tools for Developing Learning Outcomes:

The course employs economic tools such as optimization techniques and supply and demand of assets analysis to understand the economics of financial markets and financial products;

The theory of informational economics, Principal Agent Theory, and moral hazard and adverse selection will be used to understand the proper and improper functioning of financial markets;

The theoretical link between financial markets and the real economy will be outlined in the course to get an understanding how financial markets contribute to economic growth;

The course will discuss monetary theory and economics, along with the functions and roles of the Central Bank that will assist in understanding the interactions between the Central Bank and commercial financial institutions, along with understanding the monetary transmission mechanism;

There will be consistent in-class discussions on current developments in financial markets, such as Bank of Canada and Federal Reserve interest rate announcements, regulatory changes and commercial bank performances;

The course involves an assignment that asks students to cover a current issue in financial markets and to apply economic concepts and theories learned in the course in analyzing the issue. This, along with essay type questions on the midterm and final exam will allow a student to improve upon their analytical and communication skills.

Plagiarism:

Normally, students will be required to submit their course essays to the University's plagiarism detection tool 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 tool's reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of this tool are described on the Centre for Teaching Support & Innovation web site (<https://uoft.me/pdt-faq>).

The University's new plagiarism tool is *Ouriginal*.

Academic integrity is essential to the pursuit of learning and scholarship in a university, and to ensuring that a degree from the University of Toronto is a strong signal of each student's individual academic achievement. As a result, the University treats cases of cheating and plagiarism very seriously. The University of Toronto's Code of Behaviour on Academic Matters (<http://www.governingcouncil.utoronto.ca/Assets/Governing+Council+Digital+Assets/Policies/PDF/ppjun011995.pdf>) outlines the behaviours that constitute academic dishonesty and the

processes for addressing academic offences.

All suspected cases of academic dishonesty will be investigated following procedures outlined in the Code of Behaviour on Academic Matters. If students have questions or concerns about what constitutes appropriate academic behaviour or appropriate research and citation methods, they are expected to seek out additional information on academic integrity from their instructors or from other institutional resources.

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 Quercus Portal. Please visit this site regularly for recent postings and announcements. Related readings are in italics; these readings in italics are not required reading.

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 7. The Stock Market, Rational Expectations, and the Efficient Market Hypothesis

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. An 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 11. 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).

Macroeconomic Influences, Debt, Deficit, and The Euro

Lane, P.R. (2012), "The European Sovereign Debt Crisis", *The Journal of Economic Perspectives*, Summer, pp49-68.

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 12. Banking and the Management of Financial Institutions

Chapter 13. Risk Management with Financial Derivatives

Chapter 16. 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