



College of Business Administration
Department of Economics
Money and Banking
Lecturer: O. Mikhail
ECO 3223-0001
Fall 2006

Course Outline

Time : Thursday 6:00 p.m. to 8:50 p.m.
Location : BAI - 122.
Office : BA II - 302.
Office Hours : Monday and Wednesday 1:00 p.m. – 2:00 p.m.
Thursday 2:00 p.m. – 4:00 p.m.
Or by Appointment
Class Web Page: <http://www.bus.ucf.edu/omikhail/Eco3223/F2006/Eco-3223-F2006.htm>
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Course Objective

What is the economic foundation of Money, Banking and Monetary policies? In Money and Banking, there are five core principles: 1) Time has value, 2) Risk requires compensation, 3) Information is the basis for decisions, 4) Market set prices and allocate resources, and 5) Stability improves welfare. These principles serve as a framework throughout the class. We will study: money and the financial system, interest rates, financial instruments, financial markets and financial institutions. Then we will focus on central banks, monetary policy and financial stability, and finally, we will study how all of these fit together in modern monetary economics. We will use a macroeconomic model to understand and to analyze the mechanism through which financial system influence the economy, inflation and growth.

How do financial markets influence the allocation of resources in the economy? Why do they affect the level of economic activity? Does the structure of the financial system matter? Which one matters the most: the domestic system or the international financial system and what are the functions and limitations of each? Do financial institutions matter? What kind of [and which] regulations should exist on their behavior – if any? Which monetary policy is ought to be pursued to recover from a recession – if any? How do monetary policies influence the economy, the business cycle and the economic agent well-being? What are the functions and role of money in the economy? In this class, we will attempt to understand the extent, the magnitude and the influence of the financial sector on the economy.

Regardless of your occupation, as long as you are involved in the financial market (as an analyst, a venture capitalist, a financial consultant, or a marketing specialist), and as long as your objective is to reach a profit maximizing and efficient state, your knowledge of the interaction of the macroeconomics and the financial markets will aid, help and [exponentially] improve your forecasts and decision-making process.

We will study the financial markets and the *dramatis personae* (the cast of players) – the financial institutions – which participate in it? A clear distinction between the money and the capital market will be developed. Also, we will study the characteristics, history, powers and objectives of the central bank as a powerful financial institution.

Briefly, we will study and focus on the following:

1. The financial system: instruments, markets and institutions,
2. Interest rates,
3. The Central Bank (The Fed), the European Central Bank, and
4. Modern Monetary Economics and policy.

By the end of the class, students should be able to understand and explain the nature and functions of money by comparing the characteristics of a barter economy and a monetary economy. Students should also be able to understand and explain what financial intermediation is and how it improves the performance of the economy. Furthermore, students are expected to understand and explain the principles underlying the determination of interest rates, money supply, money demand and most of all the mechanisms through which monetary policy affects the economy.

Basic knowledge of algebra is required. Students are responsible for *all* materials covered in class that is presented in the textbook, in the study guide and in the lecture notes.

Attendance at lectures is not mandatory but is recommended. **If you are experiencing any difficulty in this class (or any other), please arrange a meeting with me to discuss it.**

E-mail Policy, Lecture Notes and Class Web Page

During weekdays, I should be able to answer your e-mail within 24 hours. All of the PowerPoint class notes are posted at the class web page. It is a good strategy to regularly visit the class web page for announcements. Class Readings and announcements – posted on the class web page – are part of your curriculum. I adopt the plus/minus letter grades as outlined on the class web page. **The lecture notes are not substitutes for the textbook; they are a complement to the textbook.**

Office Hours

If my office hours (stated above) conflict with your schedule and you need to meet with me, please let me know [ASAP] so I can arrange a mutually acceptable time to meet.

Required Book

Cecchetti, Stephen G. (2006) Money, Banking, and Financial Markets. McGraw Hill.
ISBN 0-07-245269-2

Visit the book web page at <http://www.mhhe.com/economics/cecchetti1e>

Evaluation (Preliminary)

Assignments	5%
In-Class Exercises	5%
Team Term Paper	20%
Quizzes (3 Quizzes)	40%
Final Exam (Thursday, December 7, 2006)	30 %

Note that the FINAL EXAM will be held from 7:00 p.m. to 9:50 p.m.

I expect you to uphold the guidelines of the Golden Rules, <http://www.ucf.edu/goldenrule>

Out of the three quizzes, only your best two quizzes will count toward your final grade.

Finding Monetary Data

Printed format - Subscribe to the:

- 1) National Economic Trends – The Federal Reserve Bank of St. Louis.
<http://research.stlouisfed.org/publications/net/>
- 2) Monetary Trends – The Federal Reserve Bank of St. Louis.
<http://research.stlouisfed.org/publications/mt/>

Data Retrieval – Electronic format

The Federal Reserve Bank of St. Louis Economic Data - FRED II

<http://research.stlouisfed.org/fred2/>

Class Structure

The class will be held in an active-discussion framework. Due to the class size and the limited class time, I suggest that students form study groups outside of class to work through the study guide and end-of-chapter problems.

Reading List

Day	Topic	Chapter(s)
08/24	Part I: Money and the Financial System Introduction, Money and the Financial System Money and the Payments System Financial System: Instruments, Markets and Institutions	1-2-3
08/31	Part II: Interest Rates, Financial Instruments and Markets Future value, Present value and Interest Rates Understanding Risk	4-5
09/04	Labor Day	
09/07	Bonds, Bond Prices, and the Determination of Interest Rates The Risk and Term Structure of Interest Rates	6-7
09/14	QUIZ I Part II: Interest Rates, Financial Instruments and Markets Chapters 4, 5, 6, and 7	
09/21	Part III: Financial Institutions The Economics of Financial Intermediation Depository Institutions: Banks and Bank Management	11-12
09/28	Financial Industry Structure Regulating the Financial System	13-14
10/05	QUIZ II – Part III: Financial Institutions Chapters 11, 12, 13 and 14	
10/12	Central Banks in the World Today The Structure of Central Banks: The Federal Reserve and the European Central Bank	15-16
10/19	The Central Bank Balance Sheet and the Money Supply Process Monetary Policy: Using Interest Rates to Stabilize the Domestic Economy	17-18
10/26	Monetary Policy	18
11/02	QUIZ III Part IV: Central Banks, Monetary Policy and Financial Stability Chapters 15, 16, 17 and 18	
11/09	Part V: Modern Monetary Economics Money Growth, Money Demand, and Modern Monetary Policy Modern Monetary Policy and Aggregate Demand	20-21
11/10-11/11	Veteran's Day	
11/16	Modern Monetary Policy and Aggregate Demand Understanding Business Cycles	21-22
11/23-11/25	Thanksgiving	
11/30	Term paper is Due Monetary Policy, Output, Inflation in the Short Run Review for the Final Exam	23
12/07	Final Exam	

FALL 2006

ACADEMIC DATES AND DEADLINES

Classes Begin	August 21
Academic Advising Weeks	October 9 - 20
Withdrawal Deadline	October 13
Graduate Thesis Dissertation Format Review Deadline (Doctoral)	October 13
Graduate Thesis Dissertation Format Review Deadline (Master's)	October 27
Graduate Thesis/Dissertation Defense Deadline	November 10
Graduate Thesis/Dissertation Submission Deadline	November 27
Classes End; Last Day to Remove Incomplete	December 2
Final Examination Period	December 4 - 9
Commencement	December 11 - 12
Grades available and will be final at 9 a.m. through MyUCF	December 15

FALL 2006 HOLIDAYS

Labor Day	September 4
Veteran's Day	November 10 - 11
Thanksgiving	November 23 - 25

THE UCF CREED

Integrity, scholarship, community, creativity, and excellence are the core values that guide our conduct, performance, and decisions.

Integrity

I will practice and defend academic and personal honesty.

Scholarship

I will cherish and honor learning as a fundamental purpose of my membership in the UCF community.

Community

I will promote an open and supportive campus environment by respecting the rights and contributions of every individual.

Creativity

I will use my talents to enrich the human experience.

Excellence

I will strive toward the highest standards of performance in any endeavor I undertake.

<http://www.sdes.ucf.edu/Creed/>