



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

Course Outline

Time : MTuWTh 2:00 p.m. to 3:50 p.m.
Location : BAI - 147.
Office : BA II - 302.
Office Hours : Tu 12:00 p.m. – 1:00 p.m. and Tu Th 4:00 p.m. – 5:00 p.m.
Or by Appointment
Class Web Page: <http://www.bus.ucf.edu/omikhail/Eco3223/S2006/Eco-3223-S2006.htm>
E-Mail : omikhail@hotmail.com
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Course Objective

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. In this 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. Finally, we will study how all of these fit together in providing modern monetary economics. We will use a macroeconomic model to understand and 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/Articles/Handouts – 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)

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|---|------|
| Team Term Paper | 20% |
| Quizzes (4 Quizzes) | 40% |
| Final Exam (June 22 nd , 2006) | 40 % |

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

Your best three quizzes will count toward your final grade. Extra-credit assignment(s) are announced in class. No early or make-up exams will be given, unless for a valid reason. The Final Exam will be held on June 22nd, 2006.

Assignments

A set of **VOLUNTARY** assignments will be posted on the class web page. These assignments will be corrected and non-graded. The purpose of these assignments [if you choose to do them] is to help you understand the material and to prepare you for the essay questions on the quizzes and the final exam.

Finding Monetary Data

Printed format

Subscribe to the National Economic Trends – The Federal Reserve Bank of St. Louis.
<http://research.stlouisfed.org/publications/net/>

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) |
|--|--|------------|
| 05/15/06 | Part I: Money and the Financial System Introduction, Money and the Financial System Money and the Payments System | 1-2 |
| 05/16/06 | Part II: Interest Rates, Financial Instruments and Markets Financial System: Instruments, Markets and Institutions Future value, Present value and Interest Rates | 3-4 |
| 05/17/06 | Bonds, Bond Prices, and the Determination of Interest Rates | 6 |
| 05/18/06 | QUIZ I Part I: Money and the Financial System Part II: Interest Rates, Financial Instruments and Markets Chapters 1, 2, 3, 4 and 6 | |
| 05/22/06 05/23/06 05/24/06 | Part III: Financial Institutions The Economics of Financial Intermediation Depository Institutions: Banks and Bank Management Financial Industry Structure Regulating the Financial System | 11-13-14 |
| 05/25/06 | QUIZ II – Part III: Financial Institutions Chapters 11, 13 and 14 | |
| 05/29/06 | Memorial Day | |
| 05/30/06 05/31/06 06/01/06 | Part IV: Central Banks, Monetary Policy and Financial Stability Central Banks in the World Today The Structure of Central Banks: The Federal Reserve and the European Central Bank The Central Bank Balance Sheet and the Money Supply Process | 15-16-17 |
| 06/05/06 06/06/06 06/07/06 | The Central Bank Balance Sheet and the Money Supply Process Monetary Policy: Using Interest Rates to Stabilize the Domestic Economy Part V: Modern Monetary Economics Money Growth, Money Demand, and Modern Monetary Policy | 17-18-20 |
| 06/08/06 | QUIZ III Part IV: Central Banks, Monetary Policy and Financial Stability Chapters 15, 16, 17 and 18 | |
| 06/12/06 06/13/06 06/14/06 06/15/06 | Modern Monetary Policy and Aggregate Demand Understanding Business Cycles The Risk and Term Structure of Interest Rates [If we finished Chapters 21, 22 and 7 by 06/14/06, then we will have QUIZ IV on 06/15/06, otherwise QUIZ IV will be held on 06/19/06] | 21-22-7 |
| 06/19/06 | QUIZ IV – Part V: Modern Monetary Economics Chapters 7, 20, 21 and 22 | |
| 06/20/06 | Monetary Policy, Output, Inflation in the Short Run Term paper is Due (06/20/06) | 23 |
| 06/21/06 | Review for the Final Exam | |
| 06/22/06 | Final Exam | |

Academic Dates – Summer 2006 – Session A

| | Session A | Session B | Session C | Session D |
|---|--------------|--------------------|-------------|-------------|
| | 6 Weeks | 6 Weeks | 12 Weeks | 9 Weeks |
| Academic Dates and Deadlines | | | | |
| Classes Begin | May 15 | June 26 | May 15 | May 15 |
| Late Registration and Add/Drop | May 15 - 19 | June 26 - 30 | May 15 - 19 | May 15 - 19 |
| Last Day for Full Refund | May 19 | June 30 | May 19 | May 19 |
| Grade Forgiveness Deadline # | May 19 | June 30 | May 19 | May 19 |
| Fees due | May 26 | May 26, July 7, | May 26 | May 26 |
| Withdrawal Deadline | June 2 | July 14 | June 23 | June 16 |
| Classes End; Last Day to Remove Incomplete | June 23 | Aug 4 | Aug 4 | July 14 |
| Final Examination Period **** | June 23 | Aug 4 | Aug 4 | July 14 |
| Residence Halls Close (noon) | June 24 | Aug 5 | Aug 5 | July 15 |
| Grades Due in Registrar's Office (noon) | June 28 | Aug 9 | Aug 9 | July 19 |
| Grades will be processed as available and will be final at 9 a.m. through MyUCF | June 29 | Aug 11 | Aug 11 | July 20 |
| Commencement | August 5 | | | |
| Summer 2006 Holidays and Special Events | | | | |
| Memorial Day | May 29, 2006 | | | |
| Independence Day | July 4, 2006 | | | |

Ends at 5:00 p.m. on the last day

**** Summer [Final Examinations](#) are given during the last class meeting.

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.