



**College of Business Administration
Department of Economics
Seminar in Money and Banking
Lecturer: O. Mikhail
ECO 6226-0001
Summer 2004**

Course Outline

Time	:	T, Th 6:00 p.m. – 9:50 p.m.
Location	:	BA I – 212.
Office	:	BA II – 302.
Office Hours	:	M, T, W, Th 1:00 p.m. – 2:00 p.m. and After the class.
Wed Page	:	http://www.bus.ucf.edu/omikhail
Class Web Page:	:	http://www.bus.ucf.edu/omikhail/Eco6226/2004/Eco-6226-s2004.htm
E-Mail	:	omikhail@hotmail.com omikhail@bus.ucf.edu
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This is an MBA class in Money and Banking. The class is open for registration to all Master Degree students at the College of Business Administration (Accounting, Economics, Finance, Management, Marketing, and MIS).

Class Objectives

Are financial markets important? If yes, then why? Which one is of most importance? How do they – if any – influence the economy? Does the institutional structure of the financial market play a role in economic growth? What are the regulations that govern this structure?

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.

In this class, we will address, examine and focus [on] the nature of the interaction of macroeconomics and financial markets and institutions.

In general, the study of complete markets economies allows us to understand the basics of risk sharing, asset pricing, and consumption. Whenever a comprehensive set of opportunities to insure risks - that markets provide - exists, the behavior of aggregate consumption depends only the state of the economy. In practice, the markets are incomplete, therefore the optimal consumption allocation could - and in most cases - do depend on the current asset holdings. This implies the existence of a potentially powerful connection between the financial markets and the economy.

In brief, the class emphasizes the following themes:

1. Financial Institutions
2. Financial Regulations
3. Financial Instruments
4. Role of Financial markets in the Economy
5. The Bond Market and the Term Structure of Interest Rates.
6. Banks and their Crucial Role in the Economy
7. Monetary Policy
8. Global Capital Markets

At first, the class covers the mechanics of the financial markets in the U.S.A. We will start with a *dramatis personae* (the cast of players) – the financial institutions – which participate in it? For each type of financial institution we will study its structure, power, functions and its regulations. Then interest will shift to the financial instruments used and finally a clear distinction between the money and the capital market will be developed [financial markets]. Also, we will study the characteristics, history, powers and objectives of the central bank as a powerful financial institution.

We will address the principles of monetary theory and policy, the nature, the functions and role of money in the economy. This part will address the interest rate determination, and the theories of money demand.

By the end of the class, students should be able to understand the mechanics (suppliers, demanders and instruments of funds) of the financial markets in the U.S., the interest rates structure and relationship to the exchange rates, the role of the central bank in these markets.

Finally and most importantly, how all together influence the economy.

Basic knowledge of calculus and algebra are required. Students are responsible for *all* materials covered in class that is presented in the textbook, in the readings 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 and Class Web Page

During weekdays, I should be able to answer your e-mail within 24 hours. Visit the class web page regularly for announcements. Class announcements – posted at the class web page – are part of your curriculum. Also, the class web page includes the conversion table for the grades. I will adopt the plus/minus letter grades as outlined on the class web page.

Office Hours

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

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 class material.

Evaluation

Mid-Term Exam (June 1 st , 2004)	40%
Assignments	10%
Term Paper	40%
Class Presentation of your Term Paper	10%

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

No early or make-up exams will be given. Class Presentations will be scheduled during the last week of classes.

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/>

Reading List

Role of Financial Markets

- Philip Arestis, Ambika D. Luintel, Kul B. Luintel “Does Financial Structure Matter?” Working Paper No. 399. The Levy Economics Institute. January 2004.
- Thorsten Beck, Ross Levine, and Norman Loayza, “Finance and the Sources of Growth”, *Journal of Financial Economics* 58 (October): 261-300, 2000.
- Stiglitz, Joseph E., 2001, Information and the change in the paradigm in economics, Nobel Prize Lecture, p. 472-540.
- W.F. Duisenberg: The role of financial markets for economic growth. Speech delivered by Dr. Willem F. Duisenberg, President of the European Central Bank, at the Economics Conference “The Single Financial Market: Two Years into EMU” organized by the Oesterreichische National Bank, in Vienna on 31 May 2001.
- The role of financial services in economic growth. By Nicola Cetorelli. Chicago Fed Letter. Jan 2002. No. 173.
http://www.chicagofed.org/publications/fedletter/2002/cfljan2002_173.pdf
- A regional perspective on the U.S. business cycle. by Michael Kouparitsas. Chicago Fed Letter. November 2002, No. 183.
http://www.chicagofed.org/publications/fedletter/2002/cflnov2002_183.pdf
- Parthemos, James. (1988) “The Federal Reserve Act of 1913 in the Stream of U.S. Monetary History.” *Economic Review*, Federal Reserve Bank of Richmond, pp. 19-28.
- Goodfriend, Marvin. (1991) “Money, Credit, Banking, and Payments System Policy.” *Economic Review*, Federal Reserve Bank of Richmond, pp. 7-23.

Financial Markets and Economic Crisis

- [The Federal Reserve Responds to Crises: September 11th Was Not the First](http://research.stlouisfed.org/wp/2003/2003-034.pdf) Christopher J. Neely. Working Paper 2003-034A. Federal Reserve Bank of St. Louis. <http://research.stlouisfed.org/wp/2003/2003-034.pdf> October 2003.
- Global Financial Crisis and Economic Development (Special Issue) Surya Sen. Aug 1999 No. 144b. Chicago Fed Letter.
http://www.chicagofed.org/publications/fedletter/1999/cflaug99_144b.pdf

- Global Financial Crises: Implications for Banking and Regulation (Special Issue) Elijah III Brewer and Douglas D. Evanoff. Aug 1999 No. 144a. Chicago Fed Letter. http://www.chicagofed.org/publications/fedletter/1999/cflaug99_144a.pdf

Regulations

- [Review of: The development and regulation of non-bank financial institutions](#); By LITAN, ROBERT E. (Reviewer); Journal of Economic Literature, December 2003, v. 41, iss. 4, pp. 1296-97 Carmichael, Jeffrey; Pomerleano, Michael; Washington, D.C.: World Bank, 2002
- [Banking Antitrust: Are the Assumptions Still Valid?](#); By Gilbert, R. Alton; Zaretsky, Adam M.; Federal Reserve Bank of St. Louis Review, Nov.-Dec. 2003, v. 85, iss. 6, pp. 29-52.
- [Depositor and Investor Protection in the EU and the Netherlands: A Brief History](#); By Garcia, G.; Prast, H.; Journal of European Economic History, Fall 2003, v. 32, iss. 2, pp. 307-48.
- [The Effects of Regulatory Reform on Competition in the Banking Industry](#); By Angelini, Paolo; Cetorelli, Nicola; Journal of Money, Credit, and Banking, October 2003, v. 35, iss. 5, pp. 663-84
- [Competitive Dynamics of Deregulation: Evidence from U.S. Banking](#); By Stiroh, Kevin J.; Strahan, Philip E.; Journal of Money, Credit, and Banking, October 2003, v. 35, iss. 5, pp. 801-28
- Regulation and the Stock Market. by Thomas J. DiLorenzo. Ludwig von Mises Institute. <http://www.mises.org/fullarticle.asp?control=1025&id=68>
- Financial market and regulatory behavior over the business cycle. by Oscar Cerda; Elijah Brewer III; and Douglas D. Evanoff. Chicago Fed Letter. December 2002, no. 184a. http://www.chicagofed.org/publications/fedletter/2002/cfldec2002_184a.pdf
- Securities Regulation and Virtual Crime in Financial Markets by Jeff Scott. 74th Annual Western Economic Association International Conference. July 6-10, 1999. <http://www.mises.org/journals/scholar/Scott1.pdf>
- Real Effects of Bank Competition. by Nicola Cetorelli Federal Reserve of Chicago, Working Paper. WP-2004-03. <http://www.chicagofed.org/publications/workingpapers/wp2004-03.pdf>

- Changing Financial Industry Structure and Regulation (Special Issue) By Elijah III Brewer and Douglas D. Evanoff. Sept 2000 No. 157a. Chicago Fed Letter. http://www.chicagofed.org/publications/fedletter/2000/cflsep2000_157a.pdf
- Cyclical of the Basel II Capital regulations
[Cyclical Implications of the Basel-II Capital Standards](http://gsbwww.uchicago.edu/fac/anil.kashyap/research/basel-final.pdf) Anil K Kashyap Graduate School of Business, University of Chicago Jeremy C. Stein Department of Economics, Harvard University. November 2003.
<http://gsbwww.uchicago.edu/fac/anil.kashyap/research/basel-final.pdf>
- Daniélsson, Jón, Paul Embrechts, Charles Goodhart, Con Keating, Felix Muennich, Olivier Renault, and Hyun Song Shin, 2001, An Academic Response to Basel II, LSE Financial Markets Group Special Paper Series, p. 1-17.

Bank Mergers

- [What's Special about Banks?](#); By Benston, George J.; *Financial Review*, February 2004, v. 39, iss. 1, pp. 13-33
- [Bank Deregulation Is Better Than Mergers](#); By Valverde, S. Carbo; Humphrey, David B.; Fernandez, F. Rodriguez; *Journal of International Financial Institutions and Money*, December 2003, v. 13, iss. 5, pp. 429-49.
- [The Integration of EU Banking Markets](#); By Gual, Jordi, 2004, C.E.P.R. Discussion Papers, CEPR Discussion Papers: 4212
- Why Bank One left Chicago: One piece in a bigger puzzle. Robert DeYoung. Chicago Fed Letter. Apr 2004 No. 201.
http://www.chicagofed.org/publications/fedletter/cflapril2004_201.pdf
- Mergers and the Changing Landscape of Commercial Banking. (Part I) By Robert DeYoung Sept 1999 No. 145. Chicago Fed Letter.
http://www.chicagofed.org/publications/fedletter/1999/cflsep99_145.pdf
- Mergers and the Changing Landscape of Commercial Banking. (Part II) By Robert DeYoung Feb 2000 No. 150. Chicago Fed Letter.
http://www.chicagofed.org/publications/fedletter/2000/cflfeb2000_150.pdf
- Boyd, John H. and Graham, Stanley L. (1991) "Investigating the Banking Consolidation Trend." *Quarterly Review*, Federal Reserve Bank of Minneapolis, pp. 3-15.
- Melloan, George. (1989) "Ponzi Was a Piker Compared to 'Troubled Thrifts'." *Wall Street Journal*, January 10, 1989, p. A19.

- Berger, Allen N. Demsetz, Rebecca S. and Strahan, Philip E. (1998) “The Consolidation of the Financial Services Industry: Causes, Consequences, and Implications for the Future.” *Finance and Economics Discussion Series*, Federal Reserve Board, Washington, D.C. 1998-46

The Federal Reserve

- Meulendykle, Ann-Marie. (1990) “A Review of Federal Reserve Policy Targets and Operating Guides in Recent Decades.” In Richard G. Davis et al., *Intermediate Targets and Economic Indicators for Monetary Policy*, Federal Reserve Bank of New York, pp. 452-473.
- Meulendykle, Ann-Marie. (1992) “Reserve Requirements and the Discount Window in Recent Decades.” *Quarterly Review*, Federal Reserve Bank of New York, pp. 25-43.
- Schwartz, Anna J. (1992) “The Misuse of the Fed’s Discount Window.” *Review*, Federal Reserve Bank of St. Louis, pp. 58-69.
- Havrilesky, Thomas M. Chappell, Henry. Gildea, John. and McGregor, Rob. (1993) “Congress Threatens the Fed.” *Challenge*, pp. 50-57.

CHICAGO FEDERAL RESERVE BANK CONFERENCE

- The Tying of Lending and Equity Underwriting. By Steven Drucker Stanford Graduate School of Business.
http://www.chicagofed.org/news_and_conferences/conferences_and_events/files/2004_bank_structure_the_tying_of_lending_and_equity.pdf
- Impact of Bank Regulation: Past, Present, and Future. The Impact of CRA Agreements on Community Banks Breck L. Robinson, University of Delaware.

Information Technology and Financial Structure

- [U.S. Consumers and Electronic Banking, 1995-2003](#); By Anguelov, Christoslav E.; Hilgert, Marianne A.; Hogarth, Jeanne M.; Federal Reserve Bulletin, Winter 2004, v. 90, iss. 1, pp. 1-18.
- Whither the community bank? Relationship finance in the information age. By Robert DeYoung, William C. Hunter and Gregory F. Udell, June 2002 No. 178.

Chicago Fed Letter.

http://www.chicagofed.org/publications/fedletter/2003/cflmay2003_189a.pdf

- The Internet's place in the banking industry. By Robert DeYoung. Mar 2001 No. 163. Chicago Fed Letter.
http://www.chicagofed.org/publications/fedletter/2001/cflmar2001_163.pdf

Monetary Policy

- Monetary Policy and Uncertainty: Adapting to a Changing Economy. A symposium sponsored by the Federal Reserve Bank of Kansas City. August 28-30, 2003.
- Peek, Joe and Eric S. Rosengren, 1995, Is Bank Lending Important for the transmission of Monetary Policy? An Overview, *New England Economic Review*, p. 3-10.
- Bernanke, Ben and Mark Gertler, 1999, Monetary Policy and Asset Price Volatility, *Federal Reserve Bank of Kansas City Economic Review*, fourth quarter, p. 17-51.
- Rigobon, Robert. and Sack, Brian. (2001) "Measuring the Reaction of Monetary Policy to the Stock Market." *Finance and Economics Discussion Series*, Federal Reserve Board, Washington, D.C. 2001-14
- Bomfim, Antulio N. (2000) "Pre-Announcement Effects, News, and Volatility: Monetary Policy and the Stock Market." *Finance and Economics Discussion Series*, Federal Reserve Board, Washington, D.C. 2000-50.
- Morgan, Donald P. (1992) "Are Bank Loans a Force in Monetary Policy?" *Economic Review*, Federal Reserve Bank of Kansas City, Second Quarter, pp. 31-41.
- Friedman, Milton. (1993) "End the Fed's Fine-Tuning." *Wall Street Journal*, September 15, p. A22.
- McCallum, Bennett T. (2000) "Theoretical Analysis Regarding a Zero Lower Bound on Nominal Interest Rates." *Working Paper 7677*, National Bureau of Economic Research.
- Clouse, James. Henderson, Dale. Orphanides, Athanasios. Small, David. and Tinsley, Peter. (2000) "Monetary Policy when the Nominal Short-Term Interest Rate is Zero." *Finance and Economics Discussion Series*, Federal Reserve Board, Washington, D.C. 2000-51

- Nelson, Edward. (2000) “Direct Effects of Base Money on Aggregate Demand: Theory and Evidence.” *Working Paper Series No. 122*, Bank of England.

Financial Globalization Effects

- [Financial Services: Global Perspectives](#); By Moshirian, Fariborz; *Journal of Banking and Finance*, Special Issue Feb. 2004, v. 28, iss. 2, pp. 269-76
- Effects of Financial Globalization on Developing Countries: Some Empirical Evidence. Eswar Prasad, Kenneth Rogoff, Shang-Jin Wei and M. Ayhan Kose. March 17, 2003. <http://www.imf.org/external/np/res/docs/2003/031703.pdf>
- Globalization: A Framework for IMF Involvement. IMF Staff. March 2002. <http://www.imf.org/external/np/exr/ib/2002/031502.htm>
- [Global Integration in the Banking Industry](#); By Berger, Allen N.; Smith, David C.; *Federal Reserve Bulletin*, November 2003, v. 89, iss. 11, pp. 451-60.
- Obstfeld, ‘The Global capital market: benefactor or menace?’ *Journal of Economic Perspectives*, Vol.12.
- Krugman, ‘Crises: The Price of Globalization?’

Money

- Walter, John R. (1989) “Monetary Aggregates: A User’s Guide.” *Economic Review*, Federal Reserve Bank of Richmond, pp. 20-28.
- Tatom, John. (1990) “The Effects of Financial Innovations on Checkable Deposits, M1 and M2.” *Review*, Federal Reserve Bank of St. Louis, pp. 37-53.
- Belongia, Michael T. and Chalfant, James A. (1990) “Alternative Measures of Money as Indicators of Inflation: A Survey and Some New Evidence.” *Review*, Federal Reserve Bank of St. Louis, pp. 20-33.

Financial Institutions: Role of Depository Institutions, Insurance and Concentration.

- [Symposium on Financial Institutions](#); By Wall, Larry D.; *Financial Review*, February 2004, v. 39, iss. 1, pp. 1-11

- [Financial Institutions in Disadvantaged Areas: A Comparative Analysis of Policies Encouraging Financial Inclusion in Britain and the United States](#); By Marshall, J. Neill; *Environment and Planning A*, February 2004, v. 36, iss. 2, pp. 241-61
- Meulendykle, Ann-Marie. (1990) "The Role of Depository Institutions." *In U.S. Monetary Policy and Financial Markets*, Federal Reserve Bank of New York, pp. 48-65.
- "The History of U.S. Deposit Insurance." *Business Review*, Federal Reserve Bank of Philadelphia, p. 15.
- Isaac, William M. (1993) "Limiting Damage of Deposit Insurance." *Wall Street Journal*, March 4, p. A14.
- Rhoades, Stephen A. (1993) "The Herfindahl-Hirschman Index." *Federal Reserve Bulletin*, March, pp. 188-189.
- Diamond, Douglas W. and Dybvig, Philip H. (2000) "Bank Runs, Deposit Insurance, and Liquidity." *Quarterly Review*, Federal Reserve Bank of Minneapolis.
- Vlaar, Peter J. G. (2000) "Capital requirements and Competition in the Banking Industry." *Working Paper Series*, Research Department, Federal Reserve Bank of Chicago, October, WP-00-18.
- Berger, Allen N. and DeYoung, Robert. (2000) "The Effects of Geographic Expansion on Bank Efficiency." *Working Paper Series*, Research Department, Federal Reserve Bank of Chicago, October, WP-00-14.
- *The Liberalization of Financial Markets: National and International Perspectives*. Conference Proceedings, 10th Annual Hyman P. Minsky Conference on Financial Structure. Levy Institute. <http://www.levy.org>

Book(s)

Package [**Download Free from the class web page**]

T. Boules, J. Handa, and O. Mikhail. (2000) *Financial Institutions in Canada and the United States*. <http://www.bus.ucf.edu/omikhail/Eco6226/2004/book.pdf>

Handa, Jagdish. (2000) *Monetary Economics*. Routledge, London & New York. ISBN: 0-415-19926-3.

Mishkin, Frederic S. (2002) *The Economics of Money, Banking, and Financial Markets*. Pearson Addison Wesley; 6th edition. ISBN: 0321113624

Walsh, Carl E. (2003) *Monetary Theory and Policy*. MIT Press. ISBN: 0-262-23231-6

Supplementary Texts

- Burton, Maureen. and Lombra, Ray. (1999) *The Financial System and the Economy: Principles of Money and Banking*. Thomson Learning Publishing. ISBN 0324004397
- Fabozzi, Frank J., Modigliani, Franco., Ferri, Michael G. and Donnelly, Paul. (Eds) (1997) *Foundations of Financial Markets and Institutions*. ISBN 0136860567
- Hubbard, Glenn R. (2000) *Money, the Financial System, and the Economy*. Third Edition, Addison Wesley Longman. ISBN 0-201-47381-X
- Hubbard, Glenn R. (Ed.) (1991) *Financial Markets and Financial Crises*. University of Chicago Press. ISBN 0226355888
- Jackson, Howell E. and Symons, Edward L. Jr. (1999) *Regulation of Financial Institutions; Selected Statutes, Regulations and Forms*. West Group. ISBN 0-314-23501-9
- Kidwell, David. and Blackwell, W. David. (1999) *Financial Institutions, Markets, and Money*. Dryden Press. ISBN 0030257417
- Kolb, Robert W. and Rodriguez, Ricardo J. (1996) *Financial Institutions and Markets*. Second Edition, Blackwell Publishers, Inc.
- Lovett, William A. (2001) *Banking and Financial Institutions Law*. West Group. ISBN 0-314-24734-3.
- Mishkin, Frederic. S. and Eakins, Stanley G. (1999) *Financial Markets and Institutions*. Addison Wesley Educational Publishers, Inc. ISBN 0321050649
- Rezaee, Zabihollah. (2001) *Financial Institutions: Valuations, Mergers and Acquisitions*. Wiley, John & Sons Inc. ISBN 0471394491
- Ritter, Lawrence. Silber, William L. and Udell, Gregory F. (2000) *Principles of Money, Banking, & Financial Markets*. Tenth Edition, Addison Wesley Longman. ISBN 0-321-02020-0
- Santomero, Anthony M. and Babbel, David. (1996) *Financial Markets, Instruments, and Institutions*. McGraw-Hill Professional Publishing. ISBN 0256166269
- Saunders, Anthony. (1999) *Financial Institutions Management*. McGraw-Hill Higher Education. ISBN 007303259X

- Saunders, Anthony. and Cornett, Marcia. (2000) *Financial Markets and Institutions: A Modern Approach*. McGraw-Hill Higher Education. ISBN 0072348925
- Shubik, Martin. (1999) *The Theory of Money and Financial Institutions*. Vol. 2, MIT Press. ISBN 0262194287

Chapters from Book(s)

- Introduction
 - Handa: Chapters 1 and 2.
 - Mishkin: Chapter 3.
- The Demand for Money and Monetary Aggregates
 - Handa: Chapters 4, 5, 6, 8 and 9.
 - Mishkin: Chapter 21.
- The Money Supply and Central Banking
 - Handa: Chapter 11.
 - Mishkin: Chapters 14, 15, 16, 17 and 18
- The Rates of Interest
 - Handa: Chapters 20 and 21.
 - Mishkin: Chapters 4, 5, 6 and 7.
- Monetary Growth Theory
 - Handa: Chapter 26.
 - Mishkin: Chapter 26.

Important Dates:

May 11	Classes Begin.
May 10 – 14	Late Registration – Add/Drop.
May 31	Memorial Day.
June 1 st	Mid-Term Exam.
June 17	Classes End.