Money and Banking

Spring 2018

Class code ECON-UA9231003

Instructors Details Daniel Aromí da88@nyu.edu

Class Details Mondays, 1:45pm-3:15pm
Wednesdays, 1:45pm-3:15pm

Prerequisites ECON-UA 1 and ECON-UA 2; or ECON-UA 5

Class Description There are two parts to this course. In the first part of the course we will study financial asset markets (bonds and stocks), and the working of the financial system. We will study the concept and determination of interest rates; the risk structure and the term structure of interest rates; stock pricing and the efficient markets hypothesis; and how information asymmetries affect the functioning of financial markets. In particular, we will analyze how market failures (such as information asymmetries) and distortionary policies (such as financial repression) may hinder the contribution of financial markets to macroeconomic and financial stability. We will also analyze the causes and consequences of financial crises in both Latin American countries and in rich countries, paying special attention to the most recent developments (the Argentine sovereign default episode in 2002 and the ongoing Greek financial crisis).

In the second part of the course we will study how money is created, the tools of monetary policy, the functioning of Central Banks, and how monetary policy affects macroeconomic and financial stability. Special attention will be placed in understanding how monetary policy works in the open economy, and what kind of interactions emerge between interest rates, the exchange rate and economic and financial stability. The analysis of the links between monetary policy, inflation, and financial and exchange rate stability in Latin America will be given special consideration.

It is particularly interesting to study money and banking from the point of view of a country like Argentina, which has experienced several episodes of banking crises and high inflation associated to inadequate monetary policies (like the 1989 hyperinflation), and which has also undergone through different policy and regulatory regimes for its financial sector, ranging from less regulated to heavily regulated and distorted, including several episodes of financial repression. Many of the maladies and experiments observed in the Argentine financial and monetary systems are now being replicated in more advanced economies and as such the Argentine experience allows drawing important lessons for money and finance elsewhere these days. It is especially relevant to analyze the occurrence of financial crises in Latin America, like the 2002 sovereign default episode in Argentina, and how they are linked to financial, monetary and exchange rate policies. In this vein, the course will draw heavily on the experience of Argentina and other Latin American countries in managing their monetary policies and financial sectors.
**Desired Outcomes**

The goal of this course is to understand the basics of financial markets and monetary policy, and the interaction between financial markets and the economy, placing special interest on how these markets function in Argentina and other Latin American countries, and how they facilitate or hinder macroeconomic and financial stability and economic development in these economies. It is expected that students will understand the implications of the efficient market hypothesis and the relevance of financial system inefficiencies. It is also expected that student will be able to distinguish the different characteristics of crisis events in developed and emerging economies. A solid command of monetary policy tools, objectives and institutional arrangements is another expected outcome. By the end of the semester, the students are expected to understand the impact of monetary policy under different modeling assumptions.

**Assessment Components**

The grading of the course will be based on two midterm exams, an essay, and two quiz exams, according to the following scheme:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Two quiz exams</td>
<td>20%</td>
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<tr>
<td>(In class, three open questions)</td>
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<tr>
<td>Two mid-term exams</td>
<td>35%</td>
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<tr>
<td>(Take home, open questions)</td>
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<tr>
<td>Essay</td>
<td>35%</td>
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<tr>
<td>Attendance and participation</td>
<td>10%</td>
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</tbody>
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Failure to submit or fulfill any required course component results in failure of the class.

**Assessment Expectations**

**Grade A:** The student makes excellent use of empirical and theoretical material and offers well-structured arguments in his/her work. The student writes comprehensive essays / exam questions and his/her work shows strong evidence of critical thought and extensive reading.

**Grade B:** The candidate shows a good understanding of the problem and has demonstrated the ability to formulate and execute a coherent research strategy.

**Grade C:** Work is acceptable and shows a basic grasp of the research problem. However, the work fails to organize findings coherently and is in need of improvement.

**Grade D:** The work passes because some relevant points are made. However, there may be a problem of poor definition, lack of critical awareness, poor research.

**Grade F:** The work shows that the research problem is not understood; there is little or no critical awareness and the research is clearly negligible.

**Grade conversion**

<table>
<thead>
<tr>
<th>Score Range</th>
<th>Grade</th>
<th>Score Range</th>
<th>Grade</th>
<th>Score Range</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-93</td>
<td>A</td>
<td>76-73</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>92-90</td>
<td>A-</td>
<td>72-70</td>
<td>C-</td>
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<tr>
<td>89-87</td>
<td>B+</td>
<td>69-67</td>
<td>D+</td>
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<tr>
<td>86-83</td>
<td>B</td>
<td>66-60</td>
<td>D</td>
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<tr>
<td>82-80</td>
<td>B-</td>
<td>59-0</td>
<td>F</td>
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<tr>
<td>79-77</td>
<td>C+</td>
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</table>
Final Exam dates cannot be changed under any circumstance. Midterm exam dates will be scheduled with each professor and it must be before the break. Unexcused absences from exams are not permitted and will result in failure of the exam. If you are granted an excused absence from examination (with authorization, as above), your lecturer will decide how you will make-up the assessment component, if at all (by make-up examination, extra coursework, or an increased weighting on an alternate assessment component, etc.).

Written work due in class must be submitted during the class time to the professor.

- NYU’s Global Programs (including NYU Buenos Aires) must adhere to a strict policy regarding course attendance. No unexcused absences are permitted.
- Each unexcused absence will be penalized by deducting 1% from the student’s final course grade.
- Absences are only excused if they are due to illness, religious observance or emergencies.
- Absences due to illness or mental health issues must be discussed with the Assistant Director for Academics Affairs, Julia Tomasini within one week of your return to class.
- A doctor’s note excusing your absence is mandatory.
- The date on the doctor’s note must be the date of the missed class or exam
- Being absent to any kind of examination must be informed at or before the time of said examination via email to the Assistant Director of Academic Affairs, Julia Tomasini (jt145@nyu.edu).
- Students observing a religious holiday during regularly scheduled class time are entitled to miss class without any penalty to their grade. This is for the holiday only and does not include the days of travel that may come before and/or after the holiday. Students must notify their professor and the Office of Academic Support in writing via email one week in advance before being absent for this purpose.
- Requests to be excused for non-illness purposes must be discussed with your professors prior to the date(s) in question. (If you want the reasons of your absence to be treated confidentially and not shared with your professor, please contact the Assistant Director of Academics Affairs, Julia Tomasini (jt145@nyu.edu).
- If students have more than four unexcused absences, they will fail the course.
- Each class lasts one hour and half or two hours. Missing one class represents one absence. For those courses that meet once a week (three-hour block), missing one class represents two absences.
- Students are responsible for making up any work missed due to absence.
- NYU BA also expects students to arrive to class promptly (both at the beginning and after any breaks) and to remain for the duration of the class. Three late arrivals or early departures (10 minutes after the starting time or before the ending time) will be considered one absence. Missing more than 20 minutes of a class will count as a full absence.
- Please note that for classes involving a field trip or other external visit, transportation difficulties are never grounds for an excused absence. It is the student’s responsibility to arrive at an agreed meeting point in a punctual and timely fashion.
- Make-up classes for Holidays are mandatory as regular scheduled classes.
- Academic accommodations are available for students with documented disabilities. Please contact the Moses Center for Students with Disabilities at 212-998-4980 or see their website (http://www.nyu.edu/life/safety-health-andwellness/students-with-disabilities.html) for further information.
- Students with disabilities who believe that they may need accommodations in a class are encouraged to contact the Moses Center for Students with Disabilities at (212) 998-4980 as soon as possible to better ensure that such accommodations are implemented in a timely fashion. For more information, see Study Away and Disability.
Late Submission of Work

Late work should be submitted in person to the Assistant Director for Academic Affairs during office hours (Mon – Fri, 9.30 am to 5 pm), who will write on the essay or other work the date and time of submission, in the presence of the student. Another member of the administrative staff can accept the work, in person, in the absence of the Assistant Director for Academic Affairs and will write the date and time of submission on the work, as above.

Work submitted within 5 weekdays after the submission time without an agreed extension receives a penalty of 10 points on the 100 point scale.

Written work submitted after 5 weekdays after the submission date without an agreed extension fails and is given a zero.

Plagiarism Policy

Academic Integrity
Academic Integrity is intimately related to the teaching and learning process. When writing research papers, you need to keep in mind that plagiarism includes the use of another person’s words, ideas, judgment, images or data as though they were your own, whether intentionally or unintentionally. It also includes presenting and/or paraphrasing discourse or ideas from a published work (in print or on internet) without quotation marks and clear without acknowledgment of the original source.

For formatting in your papers, refer to MLA guidelines.
On matters regarding academic integrity, refer to the section “Academic Standards and Discipline” in the College of Arts and Science Bulletin http://bulletin.cas.nyu.edu/page/academic.policies#STANDARDS and to “Statement on Academic Integrity” in NYU Expository Writing Program: Policies and Procedures: http://www.nyu.edu/cas/ewp/html/policies___procedures.html#statementacademicintegrity

All your written work must be submitted as a hard copy AND in electronic form to the instructor.

It is expected that the student follow the rules on academic honesty and intellectual integrity established by NYU University.

Required Text(s)


Supplemental Text(s)

Supplemental academic papers, book chapter, and other material will be indicated in the readings required for each week.

Week 1

Introduction to the course. Overview of the financial system and monetary economics. Quick overview of the Argentine economy in global and regional perspective.

Mishkin (2012), chapters 1-2

Current monetary issues in the US and in Latin America:
http://blog-imfdirect.imf.org/2014/01/16/u-s-monetary-policy-and-its-effects-on-latin-america/

Week 2
Week 3

[Feb. 19, Feb. 21]
Risk and Term Structure of Interest Rates.
Mishkin (2012), chapter 6
JP Morgan Sovereign EMBI Spreads http://datamarket.com/data/set/1dme/jp-morgan-emerging-markets-bond-index-embi#!ds=1dme!x88=k.4.d&display=line

Week 4

[Feb. 26, Feb. 27]
Stock Markets, Rational Expectations and Efficient Markets.
Mishkin (2012), chapter 7
The stock market: Is it worse than it was in 2000? http://www.marketwatch.com/story/the-stock-market-is-it-worse-than-2000-2014-08-08
Quiz I

Week 5

Bubbles and central bank intervention. The credit market and the housing market.
Mishkin (2012), chapter 7
http://online.wsj.com/articles/yukon-huang-chinas-property-market-is-no-bubble-1406220282
Essay Proposal

Week 6

Mishkin (2012), chapter 8, pages 141-168

Week 7

Financial Crises and the Subprime Meltdown
Mishkin (2012), Chapter 9.

Mishkin (2012), chapters 13-14.


Article discussion in class:


Mid-term exam

Week 9

Tools of Monetary Policy. Conduct of Monetary Policy: Goals and Targets. Inflation targeting in developing countries.

Mishkin (2012), Chapter 15-16

Week 10

The Foreign Exchange Market. Monetary policy in the open economy.

Mishkin (2012), Chapters 17-18

First essay progress report.

Week 11

Quantity Theory, Inflation and Money demand.

Mishkin (2012), Chapter 19

Quiz II

Week 12

Macroeconomic effects of monetary policy in a Keynesian Framework.

Mishkin (2009), Chapters 20-21

Second essay progress report.

Week 13

Aggregate demand and supply analysis. Monetary Policy Theory

Mishkin (2012), Chapter 22-23
**Week 14**

Second midterm exam.
Due date for essay May 16.

**Classroom Etiquette**

The use of Blackberrys, phones and IPods in class are forbidden

**Co-curricular activities**

**Your Instructor**

Daniel Aromí
Research interests: Macroeconomic and financial dynamics. Financial market anomalies.
Teaching areas: Macroeconomics. Game Theory. Behavioral Economics