**MONEY & BANKING**

**Class code**
V31.9231.001

**Instructor Details**
Stephen Hannah
stephen.hannah@nyu.edu
Office hours: By appointment on class days.

**Class Details**
Spring 2011
Class meeting time Wednesdays 14.00-17.00 hrs
Room 205, 4 Bedford Square.

**Prerequisites**
V31.0001(Economic Principles) or V31.0005 (Introduction to Economic Analysis)

**Class Description**
The weekly classes will last three hours and include a short break. The teaching method will primarily involve lectures, general discussion, problem solving and, occasionally, student presentations and reviews of homework/assessments. The session-by-session guide provides an overview of the topics that are likely to be covered although there may be minor additions/exclusions depending on the available time and other circumstances. Lecture notes, exercises, spreadsheets and additional material will be made available either in the relevant classes or, more usually, via the Blackboard system. Students are expected to ask questions, provide feedback and participate fully in general discussion.

The lectures can only identify the main points to focus on and are not designed to provide a comprehensive, self-contained coverage of everything the student needs to know in order to fulfil course requirements. Partly, this reflects time constraints. More importantly, it is intended to underline that a substantial part of students' learning will come through their own efforts:
* reading outside the class; applying ideas to contemporary issues, whether or not they have been identified within the formal syllabus;
* careful, systematic and thorough note-taking; active discussion and participation with class members;
* timely and assiduous completion of assessment requirements and any other (non-graded) exercises.

**Desired Outcomes**
Assess the principal characteristics of the financial system and its current challenges
Acquire insights as to how derivatives and financial innovation have impacted the banking industry
Appreciation of the role and techniques of monetary policy as well as of financial supervision/regulation
Understand the key principles behind the pricing of financial securities and portfolio choice
Recognition of the importance of foreign exchange and how currency markets impact policy and asset choices
**Assessment Components**

*Problem set 1 (20%):* Homework questions covering material in weeks 1-4. Distributed in week 4, collected in week 5, discussed in week 6. Unless otherwise indicated each question will carry an equal weight.

*Problem set 2 (20%):* Homework questions covering material in weeks 5-8. Distributed in week 8, collected in week 9, discussed in week 10. Unless otherwise indicated each question will carry an equal weight.

*Problem set 3 (20%):* Homework questions covering material in weeks 9-12. Distributed in week 12, collected in week 13, discussed in week 14. Unless otherwise indicated each question will carry an equal weight.

*Final examination (40%):* 2hrs duration. Short questions and essays grouped into three sections, covering material in weeks 1-14. Unless otherwise indicated each section will carry an equal weight.

Failure to submit or fulfil any required course component results in failure of the class.

**Assessment Expectations**

*Grade A:* Consistently rigorous and cogent analysis that clearly and directly answers the questions assigned. The student shows evidence of comprehensive knowledge of course material and an ability to apply theory to a critical analysis of policy options and contemporary issues. Reading is shown to have extended beyond requirements and the student displays historical and global perspective, independent thought and originality of expression.

*Grade B:* Consistently accurate and clear reproduction of key theories and ideas, employing, where appropriate, correct diagrammatic techniques and mathematical analysis. Answers to questions show some evidence of maturity and depth of thought in several areas. The answers are generally direct, relevant, well-structured and clear. Knowledge and technical competence appear broadly-based.

*Grade C:* Students show a reasonable, if patchy, grasp of key theories and their application. The answers are competent but sketchy in parts suggesting a broad-brush rather than in-depth understanding in significant areas. References to academic and other sources are limited and there are signs that the student has failed to understand the subtleties of more advanced topics.

*Grade D:* Students exhibit limited analytical capabilities. Several significant gaps in understanding are evident although reasonable efforts appear to have been made in keeping up with the required reading and exercises.

*Grade F:* Work is consistently poor and shows a lack of understanding of key concepts. Students display a broadly-based failure to express arguments logically and clearly. There is little evidence that the student has made appropriate efforts to keep up with reading and exercises.

**Grade conversion**

NYU in London uses the following scale of numerical equivalents to letter grades:

A=94-100
A-=90-93
B+=87-89
B=84-86
B-=80-83
C+=77-79
C=74-76
C-=70-73
D+=67-69
D=65-66
F=below 65

Where no specific numerical equivalent is assigned to a letter grade by the class teacher, the mid point of the range will be used in calculating the final class grade (except in the A range, where 95.5 will be used).
NYU in London aims to have grading standards and results similar to those that prevail at Washington Square. At the College of Arts and Sciences, roughly 39% of all final grades are in the B+ to B- range, and 50% in the A/A- range.

We have therefore adopted the following grading guideline: in any non-Stern course, class teachers should try to insure that no more than 50% of the class receives an A or A-. (Stern has a different grading policy that we follow in all Stern courses, please see below).

A guideline is not a curve. A guideline is just that—it gives an ideal benchmark for the distribution of grades towards which we work.

Stern School of Business classes adhere to the following Stern grading guidelines:

- 25-35% A's - awarded for excellent work
- 50-70% B's - awarded for good or very good work
- 5-15% C's or below - awarded for adequate or below work

NYU-L has a strict policy about course attendance. **No unexcused absences are permitted.** Students should contact their class teachers to catch up on missed work but should NOT approach them for excused absences. Excused absences will usually only be considered for serious, unavoidable reasons such as personal illness, health or illness in the immediate family. Trivial or non-essential reasons will not be considered.

Please note that you will need to ensure that no make-up classes – or required excursions - have been organised before making any travel plans for the semester.

**All absences due to illness must be reported on the first day of absence via phone (Freephone 0800 316 0469) or email (nyu.in.london@nyu.edu).** Absences due to illness must be discussed with the Assistant Director for Student Life. You will be asked to complete an Excused Absence Form (which can be obtained from NYU in London staff) and you will also need to produce a valid doctor’s note, having sought treatment for the illness within one week of your return to class.

**Absence requests for non-illness purposes** must be discussed with the Assistant Director for Academic Affairs prior to the date(s) in question – no excused absences for non-illness purposes can be applied retrospectively.

Unexcused absences will be penalized by deducting 3% from the student’s final course mark. Students are responsible for making up any work missed due to absence.

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 authorisation, as above), your lecturer will decide how you will make-up the assessment component, if at all (by make-up examination, extra coursework, viva voce (oral examination), or an increased weighting on an alternate assessment component, etc.). In the past, students have asked about early departure from the program at the end of the semester. This will not normally be allowed. Under no circumstances will we allow a student to take a final exam at any time other than it has been scheduled - neither before the other students in the class, nor afterwards. Students have been informed not to make return travel plans before the end of the exam week. Exams may not be held during your regularly scheduled class meeting. Please do not make plans during the exam period until you know the exact times of your exams.

NYU-L 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. If timely attendance becomes a problem it is the
prerogative of each instructor to deduct a mark or marks from the final grade of each late arrival and each early departure.

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.

Please refer to the Student Handbook for further details.

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<th>Late Submission of Work</th>
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<td>(1) Written work due in class must be submitted during the class time to the professor.</td>
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<td>(2) Late work should be submitted in person to the Administrative Assistant for Academic Affairs in office hours (Mon – Fri, 10:30 – 17:30), 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 Administrative Assistant for Academic Affairs and will write the date and time of submission on the work, as above. Please also send an electronic copy to <a href="mailto:academics@nyu.ac.uk">academics@nyu.ac.uk</a> for submission to Turnitin.</td>
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<td>(3) Work submitted within 5 weekdays after the submission time without an agreed extension receives a penalty of 10 points on the 100 point scale.</td>
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<td>(4) Written work submitted after 5 weekdays after the submission date without an agreed extension fails and is given a zero.</td>
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<td>(5) Please note end of semester essays must be submitted on time.</td>
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<td>Plagiarism: the presentation of another person’s words, ideas, judgment, images or data as though they were your own, whether intentionally or unintentionally, constitutes an act of plagiarism.</td>
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All students must submit an electronic copy of each piece of their written work to www.turnitin.com and hand in a printed copy with the digital receipt to their professor. Late submission of work rules apply to both the paper and electronic submission (see section 12 below) and failure to submit either copy of your work will result in automatic failure in the assignment and possible failure in the class.

Electronic Submission
All students must submit an electronic copy of their written work to www.turnitin.com. This database will be searched for the purpose of comparison with other students’ work or with other pre-existing writing or publications, and other academic institutions may also search it. The database is managed by JISC (Joint Information Systems Council) and has been established with the support of the Higher Education Funding Council for England.

In order for you to be able to submit your work onto the Turnitin website, you will need to set up an account:

1) Go onto the Turnitin website http://www.turnitin.com
2) Click ‘New Users’ in the top right hand corner
3) Select user type of ‘student’
4) Enter your class ID & Turnitin class enrolment password (these will be e-mailed to you after the drop/add period, or contact academics@nyu.ac.uk if you have misplaced these.
5) Follow the online instructions to create your profile.
To submit your work for class, you will then need to:

1) Log in to the Turnitin website
2) Enter your class by clicking on the class name
3) Next to the piece of work you are submitting (please confirm the due date), click on the ‘submit’ icon
4) Enter the title of your piece of work
5) Browse for the file to upload from wherever you have saved it (USB drive, etc.), please ensure your work is in Word or PDF format, and click ‘submit’
6) Click ‘yes, submit’ to confirm you have selected the correct paper (or ‘no, go back’ to retry)
7) You will then have submitted your essay onto the Turnitin website.
8) **Please print your digital receipt and attach this to the hard copy of your paper before you submit it to your professor** (this digital receipt appears on the web site, immediately after you submit your paper and is also sent to your e-mail address). Please also note that when a paper is submitted to Turnitin all formatting, images, graphics, graphs, charts, and drawings are removed from the paper so that the program can read it accurately. Please do not print the paper in this form to submit to your lecturers, as it is obviously pretty difficult to read! You can still access the exact file you uploaded by clicking on the ‘file’ icon in the ‘content’ column.

Please also see the Late Submission of Work policy, above.

Students must retain an electronic copy of their work for one month after their grades are posted online on Albert and must supply an electronic copy of their work if requested to do so by NYU in London. **Not submitting a copy of a piece of work upon request will result in automatic failure in the assignment and possible failure in the class.** NYU in London may submit in an electronic form the work of any student to a database for use in the detection of plagiarism, without further prior notification to the student.

Penalties for confirmed cases of plagiarism are set out in the Student Handbook.

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**Required Text(s)**

The Economics of Money, Banking and Financial Markets (9th Edition)
by Frederic S. Mishkin
Published by Pearson Education Limited, 2009 ISBN: 978-1-408-24580-4

The Economics of Money, Banking and Finance: A European Text (4th Edition)
by P.G.A. Howells and K. Bain

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**Further Reading**

Any additional reading will be provided through the course, typically via Blackboard

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**Internet Research Guidelines**

Additional sources and external websites will be indicated via Blackboard

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**Additional Required Equipment**
Session 1

Financial System

26 Jan

Course objectives, financial system overview, performance measurement, banks & capital markets, risk and insurance, balance sheet basics.

Howells & Bain, chs 1, 2 and 4
Mishkin, chs 1, 2 and 8
BIS, "The future of the financial sector", Annual Report, Jun 2010

Session 2

Financial Assets

2 Feb

Elementary portfolio analysis, present value & discounting, measuring risk and returns, correlation and diversification.

Howells & Bain, chs 8 and 11

Session 3

Money

9 Feb

Functions of money, payments systems, measurement issues, liquidity preference, monetary debates, sector balance sheets.

Howells & Bain, chs 12-13
Mishkin, chs 3 and 19

Session 4

Bonds & Interest Rates

Distribute problem set 1

16 Feb

Bond valuation, maturity and duration, continuous compounding, spot and forward rates, yield curves, credit spreads, inflation expectations, "natural" interest rates.

Howells & Bain, chs 9-10 and 16
Mishkin, chs 4-6

Session 5

Banks

Collect problem set 1

23 Feb

Commercial banks, market structure & performance, balance sheets, credit creation, money multiplier, risk management.

Howells & Bain, ch 12
Mishkin, chs 10, 12 and 14

Session 6

Regulation

Discuss problem set 1

2 Mar

Banks and market failure, credit rationing, tackling asymmetric information, arguments for and against regulation, Basel I and II.

Howells & Bain, ch 25
Mishkin, chs 8 and 11
Session 7

Financial Innovation

9 Mar

Challenges to traditional banking, swap markets, credit default protection, securitisation, collateralised debt.

*Howells & Bain, chs 19-20 and 24*
*Mishkin, ch 12*
*Federal Reserve Bank of Cleveland, “Swaps and the Swaps Yield Curve”, FRBC Commentary, Dec 2001*

Session 8

Equities

Distribute problem set 2

16 Mar

Characteristics of shares, earnings, dividends, the return on capital, share valuations, dividend discount models, the equity risk premium, interpreting price-earnings ratios, portfolios, asset pricing models, the Efficient Market hypothesis.

*Howells & Bain, chs 8, 17 and 26*
*Mishkin, ch 7*
*IMF, “Asset prices and the business cycle”, World Economic Outlook, May 2000*
*IMF, “When bubbles burst”, World Economic Outlook, April 2003*

Session 9

Currencies

Collect problem set 2

23 Mar

Globalisation & foreign exchange market, currency regimes, exchange rate calculations and quotations, purchasing power parity, Burgernomics, hedging and interest rate parity, volatility, overshooting, currency swaps.

*Howells & Bain, ch 18*
*Mishkin, ch 17*

Session 10

Central Banks & Policy

Discuss problem set 2

30 Mar

Central banks compared, inflation targets, interest rate pressures, Taylor rules, quantitative easing, fiscal-monetary policy links, credibility.

*Howells & Bain, chs 9, 14 and 15*
*Mishkin, chs 5, 13, 15 and 16*
*BIS, “Fiscal sustainability in the industrial countries”, Annual Report, Jun 2010*

Session 11

Global Money & Policy

6 Apr

Gold Standard, Bretton Woods, forex intervention & money supply, EMU, globalisation, international policy co-ordination.

*Howells & Bain, chs 22-23*
Mishkin, ch 18

**Session 12**
**Policy Transmission**
Distribute problem set 3
13 Apr
Rational expectations & policy effectiveness, transmission mechanisms, market imperfections, banks and policy channels, impact of securitisation.

_Howells & Bain, ch 13_
_Mishkin, chs 23-25_

**Session 13**
**Banking Crises**
Collect problem set 3
4 May

_Mishkin, chs 9 and 11_
_IMF, “Financial stress and economic downturns”, World Economic Outlook, Oct 2008_
_BIS, “Policy responses to the crisis”, Annual Report, Jun 2009_
_BIS, “From the emergency room to intensive care: the year in retrospect”, Annual Report, Jun 2010_

**Session 14**
**Repair & Reform**
Discuss problem set 3
11 May
Exit strategies, microprudential reform, procyclicality, spillovers, macroprudential policy, Basel III.

_BIS, “Macroprudential policy and addressing procyclicality”, Annual Report, Jun 2010_

**Session 15**
**Final examination**
18 May

**Classroom Etiquette**
Eating is not permitted in any classrooms in 6 Bedford Square or at Birkbeck College. Please kindly dispose of rubbish in the bins provided.

**Required Co-curricular Activities**
Visit to Bank of England, Threadneedle Street, London EC2R 8AH. Friday 6 May, details tbc

**Suggested Co-curricular Activities**