

MONEY AND BANKING ECONOMICS 111
Stanford University
Summer 2020

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1. Introduction

In a third of a century of teaching I have found that interaction is the most stimulating intellectual environment. Economics is a conversation – you are being culturally inducted into that conversation. To absorb the culture (and maximize your final grade) you should take part in the conversation. I want you to *talk* economics (where talk means verbally applying economic logic to problems in a concise way) in our sessions together and afterwards also. I also want to provoke you into thinking and arguing. The primary skill that you will learn is the ability to organize the way you think about the financial world. By the end of the course you should think like an economist and be able to access the same resources that economists access.

2. Textbook and Readings There are two components to this course: the material covered in the textbook plus other material that relates to the Global Financial Crisis. You will be introduced to the second component on a week-by-week basis. The textbook for this course is

MISHKIN, F.
Title: ECONOMICS OF MONEY, BANKING & FINANCIAL MARKETS
Edition: 12TH
Year: 2019
New York: Pearson.

This is an excellent resource. You can access the web site for this book, where you will find notes and exercises.

Each week you will be directed to additional resources and reading (some illustrative material from the quality press). You will receive about 10 emails a day summarizing relevant articles the *Economist*, the *Wall Street Journal* the *New York Times* and elsewhere: you must decide from the description whether to read the full article or not. THIS PART OF THE COURSE IS DESIGNED TO HELP YOU WITH TIME MANAGEMENT SKILLS – STUDY IS A CONSTRAINED OPTIMIZATION EXERCISE!

Lectures will not be a rehash of the textbook, but will include a good deal of additional information. The notes you take during class lectures will help you prepare for homework assignments and exams and identify which topics from the textbook are most important. You are recommended to read the textbook at least three times:

- a. Skim read: over 3 one-hour sessions you should be able to glance at all the pages – your eyes will be drawn to those topics that are of greatest interest to you.
- b. Intensive read: you should read – and takes notes from – the chapters that are about to be covered in the lecture. Make a note of that which you don't fully understand. Ask questions – to the TA and myself. Try and integrate your lecture notes with the notes taken from the book.
- c. Revision read: before the exam you should be in a position to re-read – and fully understand – the chapters that may be covered in the exam.

It is vitally important that you read each related chapter of the textbook thoroughly before class. The classes will not be spoon-feeding you through the material but instead will be focusing on elaboration, making connections between the tools and real world problems and ENCOURAGING YOU TO ACQUIRE RESEARCH SKILLS. This is the most important skill that you will acquire from this course: the ability to think independently, in an organized and confident fashion and to be able to undertake research.

This course will cover the same material as other money and banking courses: I will also try and stimulate you to go down to the library (virtual or physical) and pursue the themes that we have discussed. Economists tend to be fascinated and passionate about their subject – I want you to share that fascination and passion.

By the end of the course, you will be expected to have mastered most if not all the material in the chapters you have been set to read – I also hope that you will also see that studying economics is a worthwhile activity.

3. Course Organization

It is important that you 'virtually' attend lectures, since we will be covering a good deal of material that does not appear in the textbook.

4. E-mail and course website

Our Econ 111 course website is available at <http://canvas.stanford.edu>. Once you have registered for Econ 111 in Axess, you will automatically be registered in canvas. All homework assignments, answer keys, handouts and supplementary readings will be available on canvas, so it is important that you check it – plus your emails - frequently. The canvas website will also provide information about office hour times and locations.

5. Homework

details TBA

6. Midterm exam

There will be a mid-semester exam in class (date TBA).

7. Assessment This will be decided collectively.

In previous years the class chose:
3000 word essay: 35%
HW (best 5 out of 6 will count): 30%
Mid-term: 35%

The 3000 word essay must be handed in by 10am Pacific Time Friday 14 August.

8. Essay TBA

9. Honor Code

All students enrolled in this class, regardless of whether or not they are matriculated students, are expected to abide by the Stanford Honor Code. If you are not familiar with the honor code, you should read over the guidelines listed at the following link. <http://www.stanford.edu/dept/vpsa/judicialaffairs/guiding/honorcode.htm>. Collaboration on exams and homework are violations of the honor code.

10. Students with documented disabilities

Students who have a physical or mental impairment that may necessitate an academic accommodation or the use of auxiliary aids and services in a class must initiate a request with the Student Disability Resource Center (DRC). The DRC will evaluate the request along with the required documentation, recommend appropriate accommodations, and prepare a verification letter dated in the current academic term in which the request is being made. Please contact the DRC as soon as possible; timely notice is needed to arrange for appropriate accommodations. The DRC is located at 563 Salvatierra Walk (phone 723-1066 Voice; 725-1067 TTY).

11. Economics Department Common Course Policies

All courses taught in the Stanford Department of Economics are governed by a common set of course management rules. A document explaining these rules is included on our canvas website. Please be sure to read this document in its entirety, and let me know if you have any questions.

12. Contact:

During the summer quarter you are my top priority:

- i. I will reply to your emails as soon as I receive them.
- ii. Virtual Office Hours: TBA
- iii. The TA will also have Virtual OH and regular email contact.

13. Course content for the first part of the course

NOTE: The references are to an earlier edition of the textbook. I will update these as soon as my copy of the 12th edition arrives.

- i. Overview: What is economics? What is the 'free' market? Economics and the world economy: the future and the past. The Global Financial Crisis.

- ii. Debt/equity Primary/secondary markets Exchange/OTC markets
Money/capital markets Financial intermediaries Transaction costs
Asymmetric information Ch 1, 2, 3
- iii. Interest rates: Present value Yield to maturity Real and nominal Interest
rate risk Duration Asset demand Bond supply and demand Fisher effect Ch
4, 5
- iv. Risk and term structure: Risk Liquidity Tax Term structure Yield curves
Pure expectations theory Market segmentation theory Liquidity premium
theory Forward/spot rates Ch 6
- v. Efficient market hypothesis: Weak and strong version Evidence Random
walks Technical analysis Joyln and the dartboard Behavioral finance Ch 7
- vi. Financial markets, Money and Bonds: Money markets, definition, purpose
and participants Instruments Capital markets, definition, purpose and
participants Bond yields Ch 8, 9, 10, 11, 12
- vii. Central Banking and Monetary Policy: Federal Reserve: structure and
FOMC Central bank independence Overseas central banks The Fed's
balance sheet Open market operations Monetary policy: tools, targets and
goals inflation targeting Historical experience Ch 13, 14, 15, 16

NOTE: I am currently organizing the virtual version of this course (which has run face-to-face since 2005). I expect that we will have Zoomtime (or similar) classes; plus some recorded lectures.