

V3265 MONEY AND BANKING
COLUMBIA UNIVERSITY
Spring 2011
Syllabus, Version 1/13/2011

Instructor: Prof. Stefania Albanesi

Office Hours: MW 6-7 PM , IAB 1103B

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This is a course on Money, Banking and Financial Markets. The course will introduce students to monetary and financial institutions. We will study how monetary policy influences interest rates and asset markets, such as the bond market and the stock market. We will analyze the effect of asymmetric information in corporate finance, the design of financial contracts. We will analyze financial intermediation and the role of banks in the economic system and study the economic rationale behind banking regulation. Finally, we will discuss monetary policy. Specifically, we will review evidence and theory on how monetary policy affects real economic activity, and then study the instruments and goals of monetary policy, focussing in particular on credibility and expectations management for central banks, and the connection with fiscal policy.

Prerequisites: Intermediate Microeconomics and Macroeconomics.

Schedule and Location: The class meets MW 10.35-11.50 AM, in 503 Hamilton Hall.

TAs: Tim Beckman tmb2118@columbia.edu, Keshav Dogra kd2338@columbia.edu

TA Office Hours: See Courseworks.

Weekly Recitation Session: There will be weekly recitation sessions starting on the week of January 31, 2011. The sessions will review homework assignments, practice problems and occasionally background material. Time and location TBA.

Textbook and Readings: The textbook is F. Mishkin, *The Economics of Money, Banking and Financial Markets*, Addison Wesley, current edition. Additional required readings as well as class notes for a selected number of topics will be posted on Courseworks. You are expected to read *all* assigned chapters in the textbook, even if we do not discuss all of their contents in class.

Lecture Slides: The slides for each lecture will be posted on Courseworks *after* class. The lecture slides are primarily a support for class discussion. They are not notes and will not be exhaustive in their treatment of any topic. You are expected to take your own notes in class.

Grading and Exams: The grade will be based on class Participation, several Assignments, a Midterm and a Final exam. The course grade is determined as follows:

Grade				
Participation	Assignments	Midterm	Final	Max {Midterm, Final}
5%	10%	35%	40%	10%

The *assignments* will be handed out regularly and are due back to the TA within a week. They will be graded and will count towards your final grade as indicated in the table. The *midterm* is scheduled on Wednesday, March 10, during class time. The *final* is scheduled on TBA. The final will cover only the topics discussed *after* the midterm.

Important information on grading and exams:

- *All exams are closed book exams.*
- *There is no make-up midterm exam.* You can miss the midterm in case of illness or some other emergency. This option is available only if you provide prior information to the professor. In case you miss the midterm exam for the above reasons, the entire weight of the midterm will be shifted to the final exam, which will then be worth 85% of your grade.
- *There are no verbal appeals for grades.* Exams can be re-graded as long as the appeal is submitted within one week after the exam. You must provide a written statement explaining the reasons for the re-grade request. Note that the entire exam will be re-graded. The score may increase, decrease or stay the same.
- *The assignments are individual.* Each student must hand in their own assignment. Assignments that are illegible or unnamed will not be graded.
- *Participation:* You are expected to attend class, follow the lectures and participate in class discussions.

OUTLINE

This is a brief course outline. A detailed set of required and complementary readings in addition to the textbook will be made available on Courseworks for each topic.

Part I. Financial markets

Topics: Interest rates, term structure, basics of stock valuation, equity premium.

Readings: Mishkin Ch. 1-7, course notes, additional readings.

Part II. Financial contracts

Topics: Asymmetric information and conflict of interest in financial contracting. Loans and equity financing. Managerial compensation. Financial intermediation and banking. Management of financial intermediaries (conflicts of interest, moral hazard and adverse selection). Gatekeepers in financial markets (rating agencies, SEC, regulation). Financial crisis and international bank regulation.

Readings: Mishkin Ch. 8-12, course notes, additional readings.

III. Monetary transmission:

a. Creation of money (role of fed and banks, links with interest rate determination)

Reading: Mishkin Ch. 13-16, 19.

b. Impact of monetary policy on real variables: theory and evidence.

Reading: Mishkin Ch. 22-25, course notes, additional readings.

IV. Conduct of monetary policy:

a. Institutional procedures and tools, the Taylor rule

b. Issues: Time inconsistency and institutional design, connections with fiscal policy.

Readings: Mishkin Ch. 22-25, course notes, additional readings.