

The Economics of Money and Banking

Introduction to the principles of money and banking, the intermediary institutions of the American economy and their historical development, the principle financial instruments of the money market, current issues in monetary and financial reform.

Readings: The main texts are Marcia Stigum and Anthony Crescenzi, Stigum's Money Market, 4th edition (McGraw Hill 2007), and Steven Drobny, Inside the House of Money (Wiley 2006) or Robert G. Williams, The Money Changers (Zed 2006). Multiple copies will be available in the library, but you may also purchase at Columbia Bookstore or online.

In addition to the texts there will be weekly supplemental readings available on Courseworks. Regular reading of the financial press (for example, The Financial Times) is recommended as an invaluable aid for developing familiarity with the structure and function of modern banking institutions.

Problem Sets: There will four problem sets, graded check (minus/plus), to help you get on top of the more technical aspects of the course. These may be done and submitted in groups of no more than 4.

Prerequisites: Intermediate Macroeconomics (BC3033 or W3213) and Intermediate Microeconomics (BC3035 or W3211).

Grading: Work will be assessed by means of two exams with the following weights

Problem Sets	10%
Midterm	35%
Final	35%
Reading Period Assignment	20%

The reading period assignment is Drobny or Williams (your choice), which will be assessed by means of an essay question written as part of the final exam.

TA: The teaching assistants for this course will be holding weekly discussion sessions focused on the supplemental readings. They will also be available in office hours for help with the lecture material.

Ryan Chahrour	Tuesday 8-9 TA, 9-10 OH and by appointment, rc2374
Daniel Neilson	Wednesday 6-7 TA, 7-8 OH and by appointment, dhn2102

Lecture Schedule

Introduction

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|--|------------|----------|
| 1. The Four Prices of Money | Stigum 1-3 | |
| 2. Natural Hierarchy of Money | | Young |
| 3. US Monetary History | | |
| 4. The Balance Sheet Approach | | Bindseil |
| 5. The Central Bank as a Clearinghouse | | |

PS1 "Balance Sheets" due 9/21

Banking as a Clearing System

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| 6. Federal Funds: Final Settlement | Stigum 12 | Dunbar |
| 7. Repos: Postponing Settlement | Stigum 13 | |
| 8. Eurodollars: Parallel Settlement | Stigum 18 | Mundell |
| 9. Reserves and the Money Standard | | |

PS2 "Repo Math" due 10/5

Banking as Market Making

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| 10. The Central Bank as a Market Maker | | Hicks |
| 11. Dealers: Liquid Security Markets | Stigum 10 | |
| 12. Banks: The Market for Liquidity | Stigum 6 | Treynor |
| 13. Banks: Global Liquidity | Stigum 7 | |

PS3 "Dealer Economics" due 10/19

Monetary Policy

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| 14. Liquidity Crises and Discount Policy | Stigum 9 | Minsky |
| 15. Open Market Operations | | |
| 16. Review | | |
- MIDTERM, Wednesday, October 31
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| 17. The Spirit of Finance | | |
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Banking in a World of Finance

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| 18. Forwards and Futures | Stigum 15 | Brimmer |
| 19. Interest Rate Swaps | Stigum 19 | |
| 20. Credit Derivatives | | Black |
| 21. Guest Lecture: Robert Williams "What Financial Storms Reveal" | | |

PS4 "Derivative Math" due 11/23

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| 22. Liquidity and the Term Structure | | Mehrling |
| 23. Banking in a World of Finance | | |

Banking as Intermediation

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| 24. Financial Intermediation | Stigum 25 | |
| 25. Banks as Intermediaries | Stigum 23 | |
| 26. The Future of Banking | | |

FINAL EXAM (Monday December 17, 4:10-7)

Supplemental Readings:

- Bindseil = Bindseil, Ulrich. "The Central Bank Balance Sheet." Pages 45-76 in Monetary Policy Implementation: Theory, Past, and Present (Oxford 2004).
- Black = Black, Fischer. "Banking and Interest Rates in a World without Money: The Effects of Uncontrolled Banking." Chapter 1 in Business Cycles and Equilibrium (Basil Blackwell 1982): 83-95.
- Brimmer = "Central Banking and Systemic Risks in Capital Markets." Journal of Economic Perspectives 3 No. 2 (Spring 1989): 3-16.
- Dunbar = Dunbar, Charles F. "The Check System", Ch. 4 in Chapters on the Theory and History of Banking (1891)
- Hicks = Hicks, John. "The Nature of Money," "The Market Makes its Money," and "Banks and Bank Money." Chapters 5-7 in A Market Theory of Money (Oxford 1989): 41-63.
- Mehrling = "Minsky and Modern Finance: The Case of LTCM." Journal of Portfolio Management 26 No. 2 (Winter 2000): 81-88.
- Minsky = Mehrling, Perry. "The Vision of Hyman Minsky." Journal of Economic Behavior and Organization 39 No. 2 (June 1999): 129-158.
- Mundell = Mundell, Robert. "A Reconsideration of the Twentieth Century." American Economic Review (June 2000): 327-340.
- Treynor = Treynor, Jack L. "Economics of the Dealer Function." Financial Analysts Journal 43 No. 6 (November/December 1987): 27-34.
- Young = Chaps. 31-34 in "Commerce: The Marketplace of the World", 1924. Reprinted as pp. 265-321 in Mehrling and Sandilands, ed. Money and Growth, Routledge 1999.