

## **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, current issues in monetary and financial reform.

**Readings:** The main texts are Marcia Stigum, The Money Market, 3rd edition (Irwin Professional Publishing 1990), Frederic S. Mishkin, The Economics of Money, Banking and Financial Markets 7<sup>th</sup> ed. (Addison Wesley 2006), and Alan Blinder, The Quiet Revolution; Central Banking Goes Modern (Yale 2004). 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 also 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 Blinder, 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 around the supplemental readings. They will also be available in office hours for help with the lecture material.

Daniel Neilson    Tuesday 6-7 TA, 7-8 OH and by appointment, dhn2101  
Victor Shlychkov   Wednesday 6-7 TA, 7-8 OH and by appointment, vs2109

## Lecture Schedule

### Introduction

1. The Four Prices of Money
2. Natural Hierarchy of Money Young
3. US Monetary History
4. The Balance Sheet Approach Bindseil

### Banking as a Clearing System

5. The Central Bank as a Clearinghouse

#### PS1 "Balance Sheets" due

6. Final Settlement, Fed Funds Stigum 12 Coleman/Garbade
7. Postponing Settlement, Repo Stigum 13
8. Reserves and the Money Standard Mundell
9. International Monetary History Stigum 18

#### PS2 "Repo Math" due

### Banking as Market Making

10. The Central Bank as a Market Maker Hicks
11. Dealers: Liquid Security Markets Stigum 10
12. Banks: The Market for Liquidity Stigum 6: 117-147, 162-186 Treynor
13. The Fed: Foreign Exchange Stigum 7: 199-256, 285-294

#### PS3 "Dealer Economics" due

14. Liquidity Crises and Discount Policy Stigum 9 Minsky
15. Review

MIDTERM, Monday, October 30

No lecture, Wednesday, Nov 1

### Banking as Advance Clearing

16. Futures and Forwards Hull Brimmer
17. Liquidity and the Term Structure Stigum 15 on Futures
18. Life in Swap Land Stigum 19 on Swaps Mehrling

#### PS4 "Derivative Math" due

### Monetary Policy

19. Open Market Operations OMO
20. The Development of Orthodoxy Mishkin Ch. 14-20
21. The Challenge of Finance Black
22. A Money View Response

### Banking as Intermediation

23. Financial Intermediation Mishkin Ch. 8-12
24. Banks as Intermediaries
25. Bank Lending

FINAL EXAM (Monday December 18, 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.

Coleman = Coleman, Stacy. "The Evolution of the Federal Reserve's Intraday Credit Policies." Federal Reserve Bulletin (February 2002): 67-84.

Garbade = Garbade, Kenneth. "The Evolution of Repo Contracting Conventions in the 1980s." Federal Reserve Bank of New York Economic Policy Review 12 No. 1 (May 2006): 27-42.

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.

Hull = Hull, John. Chapter 3 in Options, Futures, and other Derivatives

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.

OMO = Federal Reserve Bank of New York. "Domestic Open Market Operations During 2005."

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.