

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 required text is Frederic S. Mishkin, The Economics of Money, Banking and Financial Markets 7th ed. (Addison Wesley 2004). You may also wish to purchase Marcia Stigum, The Money Market, 3rd edition (Irwin Professional Publishing 1990), and one of the reading period assignment books, either Robert P. Bremner, Chairman of the Fed, William McChesney Martin Jr. and the Creation of the American Financial System (Yale 2004) or Laurence H. Meyer A Term at the Fed, An Insider's View (Harper Business 2004). All are available at the Columbia Bookstore.

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.

Prerequisite: Intermediate Macroeconomics (BC3033 or W3213)

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

Midterm	40%
Final	40%
Reading Period Assignment	20%

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.

Lecture Schedule

Introduction

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| 1. The Four Prices of Money | Mishkin Ch. 1-7 | |
| 2. Natural Hierarchy of Money | | Young |
| 3. US Monetary History | | |
| 4. The Balance Sheet Approach | | Beginnings |
| 5. The Central Bank as a Clearinghouse | | |
| 6. The Central Bank as a Market Maker | | Minsky |

Banking as a Clearing System

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| 7. Final Settlement, Fed Funds | Stigum 12 on Fed Funds | |
| 8. Postponing Settlement, Repo | Stigum 13 on Repo | Johnson et al. |
| 9. Reserves and the Money Standard | Stigum 21 on BA, 22 on CP | |
| 10. International Money | Stigum 18 on Euro | Mundell |

Banking as Market Making

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| 11. Dealers: Liquid Security Markets | Stigum 10 on Dealers | |
| 12. Banks: The Market for Liquidity | Stigum 6 on Banks | Hicks |
| 13. The Fed: Foreign Exchange | Stigum 7 on Banks | |
| 14. Liquidity Crises and Discount Policy | Stigum 9 on Fed | Treynor |
| 15. The 19 th Century London Money Market | | |

MIDTERM, October 31 Bagehot

Banking as Intermediation

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| 16. Financial Intermediation | Mishkin Ch. 8-12 | |
| HOLIDAY, November 7 | | Stiglitz |
| 17. Banks as Intermediaries | | |
| 18. Bank Lending | | Black |

Monetary Policy

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| 19. The Development of Orthodoxy | Mishkin Ch. 14-20 | |
| 20. The Challenge from Finance | | Greenspan |
| 21. A Money View Response | | |

Banking as Advance Clearing

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| 22. Futures and Forwards | Mishkin Ch. 13 | Brimmer |
| 23. Liquidity and the Term Structure | Stigum 15 on Futures | |
| 24. Guest Lecture: David Laidler | | |
| 25. Life in Swap Land | Stigum 19 on Swaps | |
| 26. Conclusion | | |

FINAL EXAM (Monday December 19, 4:10-7)

Supplemental Readings:

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.

Beginnings = Mehrling, Perry. “Economists and the Fed: Beginnings.” Journal of Economic Perspectives 16 No. 4 (Fall 2002): 207-218.

Minsky = “Central Banking and Money Market Changes.” Quarterly Journal of Economics 71 No. 2 (May 1957): 171-187.

Johnson et al = Kurt Johnson, James J. McAndrews, and Kimmo Soramaki. “Economizing on Liquidity with Deferred Settlement Mechanisms” FRBNY Economic Policy Review, (December 2004): 51-72.

Mundell = Mundell, Robert. “A Reconsideration of the Twentieth Century.” American Economic Review (June 2000): 327-340.

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.

Treynor = Treynor, Jack L. “Economics of the Dealer Function.” Financial Analysts Journal 43 No. 6 (November/December 1987): 27-34.

Bagehot = Walter Bagehot, Lombard Street (1873), Ch. 5 “The Mode in Which the Value of Money is Settled in Lombard Street”, Ch. 6 “Why Lombard Street is Often Very Dull, and Sometimes Extremely Excited”, Ch. 11 “The Bill Brokers’

Stiglitz = Joseph Stiglitz and Bruce Greenwald. Chapter 2 in Towards a New Paradigm in Monetary Economics (Cambridge 2003).

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.

Greenspan = Greenspan, Alan. “Risk and uncertainty in monetary policy.” BIS Review 1 (2004): 1-8.

Brimmer = “Central Banking and Systemic Risks in Capital Markets.” Journal of Economic Perspectives 3 No. 2 (Spring 1989): 3-16.