

**ECON 325 (Section 001)**  
**MONEY AND BANKING**  
University of Wisconsin - Milwaukee, Spring 2020  
Bolton B 84- M 5:30 – 8:15 PM

**Syllabus**

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Office: BOL 830

Office Hours: W 11:30 to 1:30

## PREREQUISITE

Principles of Macroeconomics (ECON 104)

## OVERVIEW

Econ 325 is an undergraduate course focusing on the study of financial markets and institutions, including in particular the study of money and banking. Recent developments in both theory and practice have made this a highly dynamic field. For example, traditional conceptions of money must now be broadened to include electronic forms of money. Domestic banking regulations both here and abroad need to be reconsidered in the face of extensive globalization of financial markets. And new forms of global financial regulations may be needed to ensure that international financial markets can function in an orderly and welfare-enhancing way on a sustained basis. The primary objective of this course will be to help students obtain a better understanding of these and other important financial issues facing private citizens and government policy-makers both here in the U.S. and abroad.

## BOOK

**F. S. Mishkin, The Economics of Money, Banking, and Financial Markets**

Since your class notes will often only *summarize* the covered topics, reading the book for better understanding of the topics is encouraged. The textbook will be more needed the more lectures you miss. In addition, by consulting the book, you will get a second opinion about some of the topics. Optional study guide is also recommended. Its proper use can enhance your performance in tests and quizzes.

## EXAMS

There will be one midterm exam, one final exam and four to five quizzes. Your **lowest quiz score will be omitted** from your total score, that is, missing ONE quiz will not hurt your final grade.

Cheating will not be tolerated and at a minimum will result in an F grade for the exam in question. Other university sanctions may also be applied.

## CREDIT HOUR POLICY

This 3-credit course meets for 3 academic hours of lecture per week during the semester and 0 academic hours of lecture otherwise. Students are expected to put in additional 6 hours per week reading material, studying, and working on assignments to achieve the learning goals of this course. Students are expected but not required to use the remaining hours of the week doing something else.

## CAMPUS POLICIES:

<http://www4.uwm.edu/secu/SyllabusLinks.pdf>

Students will be required to bring an official photo identification card (e.g, a student ID card) to midterm and final exams. In addition, each student should also bring a pencil to the exam room.

**You cannot take a make-up exam unless you have made prior arrangements or have an excused absence. To be accepted, any conflict or other reason for missing an exam or a quiz must be brought to my attention in advance or/and as soon as possible.** If you miss a quiz, midterm or final exam due to illness or a recognized university function, provide a written excuse from your physician or the appropriate university official and make-up or other suitable action will be arranged. In case of important personal reasons, advanced consultation is required. **Also, any student requiring special conditions** (such as a quiet test environment or extra time) **during a quiz or exam, must notify me within 3 weeks after the beginning of the course.** If no advance notification is made, you will take the quiz or exam along with everyone else.

## STRUCTURE OF THE CLASSES

Each week you will attend two lectures. The purpose of the lectures is to elaborate upon the material assigned in the textbook and, in some cases, to present material that is not included in the book.

## GRADING

Each of the components of the semester grade will be weighted as follows:

<b>Midterm</b> (M, March 9 <sup>th</sup> )	<b>25%</b>
<b>Final Exam</b> (M, May 11 <sup>th</sup> , 5:30-7:30 PM)	<b>40%</b>
<b>Quizzes, Take-home-quizzes</b>	<b>25 %</b>
<b>Active Participation</b>	<b>10 %</b>

The exact cut-offs for letter grades will be decided on the basis of the mastery of key concepts and issues displayed at each overall course score level rather than by a curve dictating that a certain percentage of students must earn a certain letter grade.

## Outline of Topics

### Financial Markets

- Introduction to Financial Markets
- Functions of Financial Markets
- Financial Market Institutions
- Benefits of Financial Intermediaries
- Three Main Reasons for Regulation

### Money

- Evolution of Payment Systems
- Evolution of Money
- Definition and Measures of Money
- Three Functions of Money

### Debt Instruments

- Simple Loan Contract
- Fixed-Payment Loan Contract
- Coupon Bond
- Discount Bond
- Present Value
- Yield to Maturity
- Other Measures of Interest Rates
- How to Read Bonds
- How to Read Stocks
- Return Rates
- Real vs. Nominal Interest Rates
- Interest Rate Risk

### Theory of Interest Rates

- Asset Market Approach
- Liquidity Preference Model

### Structure of Interest Rates

- Risk Structure
- Term Structure

### Foreign Exchange Market

- Nominal Exchange Rate
- Real Exchange Rate
- Exchange Rate Indexes
- Determinants of Exchange Rates
- PPP Theory
- IRP Theory
- Balance of Payments
- Fixed Exchange Rate Regimes

### The Banking Firm

- Balance Sheet
- History
- Restrictions on Banks
- Restrictions on Other Depository Inst.
- International Banking
- Financial Innovations
- Management

### Federal Reserve System

- Formal Structure
- Informal Structure
- Independence of Central Bank

### Money: Supply and Demand

- Monetary Base
- Control of Monetary Base
- Money Multiplier
- Three Tools of Monetary Policy
- Conduct of Monetary Policy
- Demand for Money
- IS-LM-FE Model

### Financial Derivatives