ECNMS 313
MONEY AND BANKING
FALL 2006
Tuesdays and Thursdays 9:30am-10:45am
316E Olmsted Building

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Phone: 717-948-6172
Office location: 355E Olmsted Building
Office hours: Tuesdays 3:30-5:30 and Wednesdays 11:00-12:00;
or by appointment
E-mail address: nxb23@psu.edu

PREREQUISITE COURSES
All members of the class must have satisfactorily completed 6 credits of course work in introductory economics, including macro-economics and microeconomics, equivalent to ECONOMICS 002 and ECONOMICS 004 or PUBPL 350.

COURSE OVERVIEW
The financial system of an economy provides key services to consumers, firms, workers, and government. Some agents have income in excess of their spending needs, while other agents would like to spend beyond their current income. During this course, we will study markets and financial intermediaries that allow savers to lend excess income to borrowers. We will examine the monetary system, including how money affects the economy and how interest rates are determined. We will also study the role of money and the Federal Reserve in American financial system. We will learn about interactions between different financial institutions such as banks. International financial markets and exchange rates will be studied as well.

COURSE GOALS

• How financial markets work and how they link to other types of markets such as product market and labor market.
• How interest rates are determined in the loanable funds market
• Importance of portfolio allocation in determining interest rates
• Time and risk factors in determining interest rates
• How exchange rates are determined in foreign-exchange markets
• How interest rates are determined in the futures market.
• Identify the role of financial intermediaries especially the banking industry in financial markets
• Monetary policies of the government and their effects on financial and real markets.
• Importance of the central bank in the financial system and its organization
• Identify the monetary policy tools of central banks
• How the money supply process works and importance of changes in monetary base in this process
• To gain factual knowledge and learn basic principles of monetary and financial theory.
• To develop economic intuition and analytical skills about monetary policies.
• To help students in judging what kind of decisions, behavior, and policies are sensible from a personal and society level
• Apply composition and organization skills to preparing documents consisting of analysis, opinion, and comment
• Examining everyday economic decisions and policy issues is best way to understand money and banking. Therefore, we will spend a lot of time applying the tools we learn to current events and policy issues. Students are encouraged to read the Wall Street Journal and to bring in topics for class discussion.
REFERENCES


- **Web Site**: [http://www.aw-bc.com/catalog/academic/product/0,1144,032124639X,00.html](http://www.aw-bc.com/catalog/academic/product/0,1144,032124639X,00.html)
The web site includes chapter summaries, and multiple choice and short answer quizzes.


- **The Economist**, The Economist Newspaper Limited, weekly; independent global economic and political news and analysis source; [www.economist.com](http://www.economist.com)


- Additional readings will be handed out in class.

METHODS OF INSTRUCTION

Most class sessions will include these activities:
- Lecture on assigned textbook chapter(s).
- Class discussion of selected problems and questions at the end of each assigned chapter.
- Review and discussion of some articles from different journals and newspapers. The articles will be posted on ANGEL.
- Case study assignment (report and presentation).

Summary power point presentations are going to be posted on ANGEL. I expect you to study from the text and the study guide before each class meeting in the light of these presentations. Since we will discuss some questions, problems and articles, I will not have time in class to go over every point in the text. If you come to class without doing the reading, you will not be able to fully benefit from the class room discussion and exercises. Class time is best used for working out the implications of material you have already first encountered in your own studying. Please note that these presentations give outline information about topics that we are going to study in class. They do not include examples.

COURSE REQUIREMENTS (Total 100 points + 5 bonus points)

A) **EXAMS** (Total weight of the exams is 56 percent of the final grade)

There will be three tests:
1) midterm exam 1 (October 12, 2006) --- its weight is 18 percent of the final grade
2) midterm exam 2 (November 16, 2006) --- its weight is 18 percent of the final grade
3) final exam (TBA) --- its weight is 18 percent of the final grade

The midterm and final exams will consist of multiple choice and essay questions. They will be closed book exams. The only type of calculator you will be permitted to use on the exams is a simple one. The final exam will not be cumulative. There will be review sessions before the exams.
B) PROBLEM SETS (Total weight of 5 problem sets is 15 percent of the final grade)

There will be 5 problem set assignments during the course. They are going to be available on ANGEL. They will consist of essay questions. These problem sets are quite helpful for you to get prepared for the exams. You can work together with other students on questions, since discussing the problems with others should increase your understanding of the course material. However, it is absolutely necessary that you alone write up solutions. Solutions that are too similar will get a zero. The solutions will be discussed in the classroom. You do not have to type the answers. The problem sets have to be turned in before or on the deadline specified in the table below. Late submitted problem sets will not be accepted. Exceptions will be given only in case of an emergency. Please see the “Make-up policy” section below. It is strongly suggested you to turn in your problem sets as hard-copies. If you submit your problem set via e-mail and if the instructor does not receive it, no responsibility will be accepted.

<table>
<thead>
<tr>
<th>Problem sets</th>
<th>Deadline (at 9:30 am)</th>
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<tbody>
<tr>
<td>Problem set 1 --- its weight is 3 percent of the final grade</td>
<td>September 21, 2006</td>
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<tr>
<td>Problem set 2 --- its weight is 3 percent of the final grade</td>
<td>October 05, 2006</td>
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<tr>
<td>Problem set 3 --- its weight is 3 percent of the final grade</td>
<td>October 26, 2006</td>
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<td>Problem set 4 --- its weight is 3 percent of the final grade</td>
<td>November 09, 2006</td>
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<tr>
<td>Problem set 5 --- its weight is 3 percent of the final grade</td>
<td>December 05, 2006</td>
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C) CASE STUDY (Total weight is 21 percent of the final grade)

The aim of the study is to combine theory and practice and make you focus on a topic that you are interested in. On the first day of the classes, students will be asked to identify their first and second choices from a set of 3 possible topics. Your case study is going to be related to any one of the following financial variables, depending on your interest.

- Interest rates
- Exchange rates
- Money

The study is going to consist of three parts.

1. **First draft of the case study report** (its weight is 3 percent of the final grade). The deadline is on October 24, 2006 at 9:30am.

   **Expectations:** In the first draft, you are supposed to complete initial data collection and data analysis (graphical or/and statistical). You need to find articles or papers related to your topic. Summarize them briefly.

2. **Complete version of the report** (its weight is 12 percent of the final grade). The deadline is on December 07, 2006 at 9:30am.

   **Expectations:** a) Take into account the instructor’s suggestions related to the first draft of the report. b) Additional data collection and data analysis (graphical or/and statistical). c) Collection of additional articles and papers to support your arguments. Any supplementary materials such as newspaper articles must be attached for full credit. Note that any attached supplementary materials need to be mentioned in the report. Your analysis are expected to focus on the following issues (details will be provided) i) What are the determinants of the financial variable that you study? ii) How is the financial variable that you study related to other financial variables and “other” economic variables such as inflation, output, unemployment, trade deficit? iii) How “other” economic and financial variables determine the financial variable that you study, how financial variables determine “other” economic variables? iv) **This section needs to be answered by each group member.** What is your major? Suppose that you are working at a position related to your major. What type of job would it be? Also
suppose that the value of the financial variable that you study is increasing or decreasing. In this changing financial environment, what type of adjustments will you need to make for the firm? For example, if your major is finance, most probably you are going to work at any firm’s or bank’s finance department. If interest rates are increasing, what type of adjustments do you need to make? For example, would you purchase more bonds or stocks, or would you purchase or sell futures in order to reduce risk? Justify your answers.

3. **Presentation** (its weight is 6 percent of the final grade; on December 07, 12, and 14 (if necessary)).

**Expectations:** Each group is supposed to make 15 minute presentation about their reports. Each group member has to present some part of the report. It is most likely that there are going to be more than one group working on the same topic. In this case, each group is expected to focus on different parts of the case study. The instructor and students will together decide on which groups are going to focus on which issues.

**Rules:**
- Detailed information about the case study materials will be available on ANGEL and will be discussed in class.
- Students will be asked to form case study groups. Each group will consist of 4 students. Some groups may have more or less number of students, depending on the total number of registered students. If you want to form your own group, let me know by September 14, 2006. You can send me an email message. If you do not have any preference, I am going to assign you randomly to a group, depending on your choice of case study topic. While forming your group, note that each member is supposed to work on the same topic.
- Division of labor will be decided collectively by group members.
- The first draft of the case study and the complete report need to be typed and submitted as hard copies. The complete report should not be longer than double spaced 10 pages excluding graphs and tables.
- Please note that this is a group study and each group member is responsible for the answers and comments written in the case study. **Each group member has to read the whole report** (first draft and complete version) before submitting it. If they have any additional comments about the parts of the report written by other members, they must specify it to the responsible group member at least one week before the deadline. Since I am going to assume that the whole report is checked by each group member, **if any part of the report is wrong, incomplete, or missing, this is not going to be the responsibility of only one individual; the whole group will be responsible.**
- Please do not wait until last day to complete your report. Each group member should know his or her responsibilities at least three weeks before the deadlines, and the draft of the complete report should be ready at least one and a half week before the deadline. In this way, you are going to have enough time to read the whole report and make changes if necessary.
- If you have any concerns about other group members, for example one group member may not be responding on time or not contributing at all, please let me know as soon as possible. **Any complains after the deadlines will not be considered and it is not going to affect the report grade.**
- Your report will be graded relative to the quality of other reports. Reports with better answers, including additional articles etc. will get the highest grade. Other reports will be graded depending on their quality relative to the quality of the best report. One group grade will be given to each report.
- You will be asked to evaluate the performance of other group members while turning in your first draft and the complete version. Evaluation forms are going to be available on ANGEL. You have to complete the group evaluation form and turn it in together with your group reports. In this form you are going to evaluate the level of other group members’ contribution and whether their responses were on time or not.
- Note that any group member’s grade (individual grade) might be different from the group grade. If you respond to other group members on time and contribute as much as other group members, and if you are present on the discussion and participating in case study discussions, your individual
grade will be equal to the group grade. If not, your individual grade will be lower than the group grade.

- If you believe that the contribution of any member is as much as yours and his/her response is on time, the grade that you are going to give your friend should be “excellent”. If any group member evaluates your contribution and whether you respond on time or not as “average”, your grade will be 25 percent less than the group grade. If any group member evaluates your contribution and whether you respond on time or not as “poor”, your grade will be 50 percent less than the group grade. If any group member thinks that you did not contribute at all, your individual grade will be zero.

- You have to be present on the case study presentation. If you miss it, your presentation grade will be zero. Exception will be given only in case of an emergency. **If you are ill, you have to present a doctor report.**

- Group members may communicate easily if they use group message boards and folders that will be available on ANGEL. You can share your messages and files with other group members on ANGEL. Let me know if you have any questions about how you can use them.

- One purpose of the case study is to make you study the chapters we may not be able to cover fully in class.

- You cannot change your group or topic after you choose one.

- If you have any questions related to the report or your analysis, you can ask me any time.

<table>
<thead>
<tr>
<th>Case study</th>
<th>Deadline (at 9:30 am)</th>
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<tbody>
<tr>
<td>First draft of the case study --- its weight is 3 percent of the final grade</td>
<td>October 24, 2006</td>
</tr>
<tr>
<td>Complete report --- its weight is 12 percent of the final grade</td>
<td>December 07, 2006</td>
</tr>
<tr>
<td>Presentations --- its weight is 6 percent of the final grade</td>
<td>December 07, 2006</td>
</tr>
<tr>
<td>Note that actual presentation days of each group will be announced</td>
<td>December 12, 2006</td>
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<td></td>
<td>December 14, 2006 (if necessary)</td>
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</table>

**D) CLASS DISCUSSION AND PARTICIPATION (Total weight of class discussion and participation is 10 percent of the final grade)**

The purpose of class discussions will be to apply our knowledge to real life cases. Current events and news will be discussed related to the topics we covered in class. There will be 5 class discussions. The students are encouraged to participate in discussions. The articles that we are going to discuss will be available on ANGEL at least one week before the specified discussion dates. It will be your responsibility to come prepared to the class discussions. Your participation is going to affect your participation grade.

Class discussions will be on:
1) Discussion # 1 --- September 19, 2006
2) Discussion # 2 --- October 03, 2006
3) Discussion # 3 --- October 19, 2006
4) Discussion # 4 --- November 07, 2006
5) Discussion # 5 --- November 30, 2006

- You should respond in class to discussion questions and problems given at the end of assigned chapters in the textbook and materials related to assigned articles.
- Your voluntary participation in class discussions will improve your participation grade.
- You should maintain a positive class environment for learning. Be in class on time. You should not converse with other students during class except when instructed to do so. Turn off your cellular phones and pagers before you enter the class.
E) SUBMITTING ANSWERS TO QUESTIONS RELATED TO DISCUSSION PAPERS (Total weight of these answers is 5 percent of the final grade)

Questions related to discussion papers will be given with each discussion article. You do not have to turn in your answers to these questions; they will be discussed in class. But if you want to earn bonus points from each discussion paper (its weight will be 1 percent of your final grade), please turn in your answers to these questions. They must be submitted on the discussion dates specified in Section D. Since we are going to study 5 articles, you can earn bonus points corresponding to 5 percent of your final grade. Late submitted answers will not be graded.
COURSE GRADING

Mid-term exam 1 worth 18 percent of the final grade
Mid-term exam 2 worth 18 percent of the final grade
Final exam worth 18 percent of the final grade
First draft of the case study 3 percent of the final grade
Final version of the case study 12 percent of the final grade
Presentation of the case study 6 percent of the final grade
5 problem sets worth 15 percent of the final grade (3 percent each)
Class discussion and participation worth 10 percent of the final grade
Submitting Answers to Questions Related to Discussion Papers 5 percent of the final grade (bonus points)

You will receive a score of points on each exam, but no letter grade. At the end of the semester, you will receive a letter grade for the course according to your total points and the grade scale below.

<table>
<thead>
<tr>
<th>Grading Scale</th>
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<tbody>
<tr>
<td><strong>Points</strong></td>
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<tr>
<td>91 and above</td>
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<tr>
<td>86-90</td>
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<tr>
<td>81-85</td>
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<td>76-80</td>
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<td>71-75</td>
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<td>66-70</td>
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<td>61-65</td>
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<tr>
<td>50-60</td>
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<tr>
<td>Below 50</td>
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How you can calculate your final grade?
Your final grade =
Problem set 1 grade*0.03 + Problem set 2 grade*0.03 + Problem set 3 grade*0.03 + Problem set 4 grade*0.03 + Problem set 5 grade*0.03
+ First draft of the case study grade*0.03 + Complete case study report grade*0.12 + Case study presentation grade*0.06
+ Midterm 1 grade*0.18 + Midterm 2 grade*0.18 + Final exam grade*0.18
+ Class participation grade*0.10
+ Discussion paper 1 bonus grade*0.01 + Discussion paper 2 bonus grade*0.01
+ Discussion paper 3 bonus grade*0.01 + Discussion paper 4 bonus grade*0.01
+ Discussion paper 4 bonus grade*0.01

Maximum possible final grade = 100 points + 5 bonus points
## Tentative Course Outline

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>September 05, 2006</strong>&lt;br&gt;September 07, 2006</td>
<td>Syllabus and introduction (1)&lt;br&gt;Introducing money and the financial system (0.5)&lt;br&gt;Money and the payments system (0.5)</td>
<td>Ch 1&lt;br&gt;Ch 2</td>
</tr>
<tr>
<td><strong>September 12, 2006</strong>&lt;br&gt;September 14, 2006</td>
<td>Overview of the financial system (1)&lt;br&gt;Interest rates and rates of return (1)</td>
<td>Ch 3&lt;br&gt;Ch 4</td>
</tr>
<tr>
<td><strong>September 19, 2006</strong>&lt;br&gt;September 21, 2006</td>
<td>Interest rates and rates of return (continued) (1)&lt;br&gt;The theory of portfolio allocation (1)</td>
<td>Ch 4 (cont’d)&lt;br&gt;Ch 5</td>
</tr>
<tr>
<td><strong>September 26, 2006</strong>&lt;br&gt;September 28, 2006</td>
<td>Determining market interest rates (2)</td>
<td>Ch 6</td>
</tr>
<tr>
<td><strong>October 03, 2006</strong>&lt;br&gt;October 05, 2006</td>
<td>Risk structure and term structure of interest rates (1)&lt;br&gt;The foreign-exchange market and exchange rates (1)</td>
<td>Ch 7&lt;br&gt;Ch 8</td>
</tr>
<tr>
<td><strong>October 10, 2006</strong>&lt;br&gt;October 12, 2006</td>
<td>Exam Review Session on October 10, 2006&lt;br&gt;Midterm 1 (Oct. 12, 2006) (Chapters 1 to 7)</td>
<td>Ch 8 (cont’d)&lt;br&gt;Ch 9</td>
</tr>
<tr>
<td><strong>October 17, 2006</strong>&lt;br&gt;October 19, 2006</td>
<td>The foreign-exchange market and exchange rates (continued) (1)&lt;br&gt;Derivative securities and derivative markets (1)</td>
<td>Ch 13</td>
</tr>
<tr>
<td><strong>October 24, 2006</strong>&lt;br&gt;October 26, 2006</td>
<td>The business of banking (2)</td>
<td>Ch 14&lt;br&gt;Ch 17</td>
</tr>
<tr>
<td><strong>November 07, 2006</strong>&lt;br&gt;November 09, 2006</td>
<td>The money supply process (continued) (0.5)&lt;br&gt;Changes in the monetary base (1.5)</td>
<td>Ch 17 (cont’d)&lt;br&gt;Ch 18</td>
</tr>
<tr>
<td><strong>November 14, 2006</strong>&lt;br&gt;November 16, 2006</td>
<td>Exam Review Session on November 08, 2006&lt;br&gt;Midterm 2 (Nov. 16, 2006) (Chapters 8, 9, 13, 14, 17, 18)</td>
<td>Ch 20&lt;br&gt;Ch 21</td>
</tr>
<tr>
<td><strong>November 21, 2006</strong>&lt;br&gt;November 23, 2006</td>
<td>NO CLASSES</td>
<td></td>
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<tr>
<td><strong>November 28, 2006</strong>&lt;br&gt;November 30, 2006</td>
<td>Monetary policy tools (1)&lt;br&gt;The conduct of monetary policy (1)</td>
<td>Ch 20&lt;br&gt;Ch 21</td>
</tr>
<tr>
<td><strong>December 05, 2006</strong>&lt;br&gt;December 07, 2006</td>
<td>Other issues related to Money and Banking (1)</td>
<td>Ch 20&lt;br&gt;Ch 21</td>
</tr>
<tr>
<td><strong>December 12, 2006</strong>&lt;br&gt;December 14, 2006</td>
<td>Group presentations – Dec. 12, 2006&lt;br&gt;Final Exam Review Session on December 14, 2006</td>
<td>Ch 20&lt;br&gt;Ch 21</td>
</tr>
<tr>
<td><strong>TBA</strong></td>
<td>FINAL EXAM</td>
<td></td>
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Note: Expected class numbers are given in parenthesis.
OTHER CLASS POLICIES

STUDENTS WITH DISABILITIES

Penn State welcomes students with disabilities into the University’s educational programs. If you have a disability-related need for modifications or reasonable accommodations in this course, contact the Disability Service Coordinator in the Student Assistance Center (W-117 Olmsted, 717-948-6025). The instructor should be notified as early in the semester as possible regarding the need for modification or reasonable accommodations.

RELIGIOUS HOLIDAYS

If you miss any days during this fall semester for religious holidays, please examine the course schedule carefully and notify me within the first week of class so that I can accommodate you better.

ATTENDANCE POLICY

You are expected to attend each class. I reserve the right to expel any student who does not participate in this course on a regular basis.

MAKE-UP POLICY

All exams must be taken at the assigned date and time, all assignments (problem sets and the paper) must be turned in no later than the specified date and time, or a zero will be recorded. An exception to this policy will only be granted for serious circumstances that are beyond your control. Arrangements for an exception must be made as soon as possible and in advance if at all possible. You should be prepared to provide evidence that the situation is indeed beyond your control.

SYLLABUS CHANGES

Information in this syllabus is subject to change. All changes will be announced in class.
STATEMENT OF ACADEMIC INTEGRITY

- Students will pursue their activities for this course without fraud or deception. This applies to any work submitted for credit. They should consult with the Instructor about the appropriateness of any action about which they are in doubt.

- Any form of copying that does not identify the source of the original work is not acceptable and will not receive credit. Students should protect their work from unauthorized copying. Plagiarism is not acceptable.

- Students will not attempt to claim credit for work they did not perform nor are they to appropriate the work of others without giving explicit due recognition to this work, or to its author(s).

- While taking examinations, or in the preparation of any other papers or presentations required in a course, students may use only those materials permitted by the instructor, such as formula lists and calculators, that might be used during examinations.

- Class members cannot give information to, nor receive information from, other class members during any examination or quiz. Class members must not copy from, nor refer to, the work of others during examination periods.

- Plagiarism, copying and communication during examinations, and use of materials prohibited by the instructor will subject a student to a grade of “F” for the course in which these activities occur, and/or other disciplinary sanctions.

- Class members will promote a constructive learning environment in the classroom. They must be respectful of the rights of others and they should not jeopardize the ability of others to learn.

- Faculty members may file accusations of academic misconduct with the Academic Integrity Committee of Capital College, along with recommended disciplinary sanctions. The Academic Integrity Committee provides accused students with specific rights and procedures for appeal.

ACCOMMODATION

It is Penn State's policy not to discriminate against qualified students with documented disabilities in its educational programs. If you have a disability-related need for modifications in this course, contact the Disability Service Coordinator in the Student Assistance Center (W117 Olmsted; 948-6025).