

ST. JOHN'S UNIVERSITY  
NEW YORK

THE PETER J. TOBIN COLLEGE OF BUSINESS

Department of Economics/Finance  
Undergraduate Division

Money and Banking  
ECO 2309

Cameron M. Weber, Adjunct Professor

DEPARTMENT : Economics and Finance

COURSE NAME : Money and Banking

COURSE NUMBER : ECO 2309

PREREQUISITE : ECO 1301

CREDIT : 3 credit hours

### COURSE DESCRIPTION

This course develops a comprehensive understanding of the role of money, credit, banking, and central banks in the modern economy. Topics include definition of money supply, discussion of various financial instruments and role of financial institutions and financial markets. In addition the course studies formal structure the Federal Reserve, its strategy and use of monetary policy; and significance of monetary and fiscal policy in the economy. We will also study the historical development of monetary policy in the United States in order to get a better understanding of why our current central bank system was seen as a necessary solution to stabilize the economy.

### OBJECTIVES OF THE COURSE

The objective of this course is to develop understanding about:

1. What role money and credit play in an economy?
2. How money supply is defined, and what role the velocity of money plays in regulating the economy?
3. What are the different financial instruments, as well as what role financial institutions and financial markets play in an economy?
4. How to analyze assets and liabilities of banks, and how they affect lending and investment policies?
5. What led to the development of the Federal Reserve System?
6. What is the structure of the Federal Reserve System?
7. What is monetary theory?
8. How does the Federal Reserve use monetary policy to regulate the economy?
9. What is the difference between monetary policy and fiscal policy?

## TOPICAL MODULES:

- I. Money (4 weeks)
  1. Functions and properties of money
  2. Barter system, and problems that come with it
  3. Definition of money supply
  4. Relationship between money and economy
  5. How money affects inflation
  6. How bank creates money and deposits
  7. What is the velocity of money, how to measure it, and what role it plays
  
- II. Financial Institutions (3 weeks)
  1. Financial markets
  2. Money market and capital market
  3. Financial instruments
  4. Financial intermediaries
  5. Present value
  6. Relationship between bond price and interest rate
  
- III. Federal Reserve System (3 weeks)
  1. Origin
  2. Structure
  3. Goals
  4. Instruments of monetary control
  5. Working of monetary policy
  6. Changes in bank reserves and their effect
  
- IV. Monetary Policy Strategy and Fiscal Theory and Policy (4 weeks)
  1. The Federal Reserve's balance sheet and its effect
  2. The Fed's strategy
  3. Deciding about appropriate instruments to use
  4. Monetary effects of Treasury financing
  5. Fiscal theory and policy

## METHODS OF INSTRUCTION:

The methods of instructions will include lectures and reading assignments, going over questions at the end of each chapter and discussing day-to-day events - both domestic and international.

## STUDENT PERFORMANCE EVALUATION:

Two quizzes	20%
Midterm exam.	30%
Class participation	10%
Final examination	40%

## ASSESSMENT:

The performance of students will be evaluated on the basis of quizzes, exams and class participation.

## BIBLIOGRAPHY

### Main Text

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets* (9<sup>th</sup> Edition), Prentice Hall.

In addition, students should stay current on topical financial events through reading *The Economist* magazine, the *New York Times*, the *Financial Times* and/or the *Wall Street Journal* either in print or on-line versions.

### Optional Texts

Murray N. Rothbard (2008), *The Mystery of Banking*, Mises Institute, available: <http://mises.org/Books/mysteryofbanking.pdf>

Vera L. Smith (1990), *The Rationale of Central Banking*, Liberty Fund, available: [http://files.libertyfund.org/files/1413/0100\\_Bk.pdf](http://files.libertyfund.org/files/1413/0100_Bk.pdf)

### Other Optional References

Bordo, Michael David. 1981. "The Classical Gold Standard: Some Lessons for Today." Federal Reserve Bank of St. Louis, available: [http://research.stlouisfed.org/publications/review/81/05/Classical\\_May1981.pdf](http://research.stlouisfed.org/publications/review/81/05/Classical_May1981.pdf)

Council of Economic Advisors. *Economic Report of the President*. Washington, D.C.: Government Printing Office, latest available: <http://www.gpoaccess.gov/eop/>

The Federal Reserve Bank of San Francisco. 2008. "The Federal Reserve in Brief," available: <http://www.frbsf.org/publications/federalreserve/fedinbrief/index.html>

The Federal Reserve Bank of Atlanta. *The Story of Money*, available: [http://www.frbatlanta.org/atlantafed/visitors\\_center/tour/story.cfm](http://www.frbatlanta.org/atlantafed/visitors_center/tour/story.cfm)

Thornton, D. L. 2004. "When Did the FOMC begin Targeting the Federal Funds Rate? What the Verbatim Transcripts Tell Us," *Journal of Money, Credit and Banking*, December 2006, 38(8), pp. 2039-71.