

Money and Banking (Econ 3410A)

2023-2024 Term 1

Instructor: Dr. Paul YIP, Sau Leung

Time: Tue 14:30-17:15

Office Hours: by appointment

Office Phone: 3943 9278

Venue: Sino Building LT2

Office: 1004, Esther Lee Building

E-mail: aslyip@cuhk.edu.hk

TA: Yeung Ngai Sang

COURSE DESCRIPTION

This course offers a systematic analysis of monetary theories and the financial system. Apart from exposing students to different approaches in monetary analysis, the course places a special emphasis on the up-to-date analysis of how information costs affect financial structure and monetary policy. The course will cover the structure and importance of the financial system, the functions of money, behavior of interest rates, financial structure and asymmetric information, bank management and regulation, debates on macroeconomic and monetary policies, the targets and instruments of monetary policies, the transmission mechanism of monetary policy and its effectiveness, money and inflation, rational expectations and its applications.

Lecture Schedule

Lecture	Topics	Readings
1-2	An Overview of the Financial System Functions of the financial markets Structure of the financial markets Financial market instruments Direct and indirect finance Functions of financial intermediaries	M, Ch 2
2	Role and Functions of Money The three functions of money Evolution of the payment system Measuring money	M, Ch 3
3-4	An Economic Analysis of Financial Structure Basic facts about financial structure Transaction costs Asymmetric information Adverse selection and moral hazard The Lemmon Problem How adverse section influences financial structure How moral hazard affects debt and equity contracts Principal-Agent Problem	M, Ch 8

Lecture	Topics	Readings
5	Level and Structure of Interest Rates Bond price and interest rate Fisher equation: real versus nominal interest rate Risk and term structure of interest rates Yield Curves	M, Ch 4 & 6
6-7	Banking and Management of Financial Institution General principles of bank management: liquidity management, asset management, liability management, capital adequacy management Managing credit risk Managing interest rate risk Off-balance-sheet activities: its growing importance and implications to the profit and risk of banks	M, Ch 9
7	Money Supply Process Money creation Money multiplier Determinants of Money Supply Tools of Monetary Policy	M, Ch 15
8	Demand for Money Quantity theory of money Keynes's Liquidity Preference Theory Friedman's modern quantity theory of money	M, Ch 20
9	The Keynesian Framework and the IS-LM Model Goods market equilibrium The IS curve Money market equilibrium The LM curve Monetary and Fiscal Policies in the IS-LM model	M, Ch 21 Lecture Notes
10	Aggregate Demand and Supply Analysis The aggregate demand curve Short-run aggregate supply curve Long-run aggregate supply curve Real business cycle theory versus hysteresis effect Negative and positive supply shocks	Lecture Notes
11	Transmission Mechanisms of Monetary Policy Traditional interest rate channels Other asset price channels Credit View Lessons for monetary policy	M, Ch 26
12	Money and Inflation Monetary accommodation and inflation Oil crisis shock and stagflation Dis-inflationary policy Phillips Curve Expectation-augmented Phillips Curve Lucas supply function	M, Appendix of Ch 23, Supplementary Readings

Textbook

Mishkin, Frederic S (M), **The Economics of Money, Banking and Financial Markets**, Global Edition, , 12th Edition, Pearson.

BLACKBOARD

Course materials, including syllabus, homework assignments, handouts, etc., will be uploaded to Blackboard.

GRADING POLICY

There will be **four assignments** and **one comprehensive final exam**. Each assignment will account for 12% of your total grade. Students are required to complete the assignment independently and submit the completed assignments by the specified deadlines. Class participation will account for another 12% of the total grade. The **COMPREHENSIVE** final will account for 40% of the total grade. Final Exam date and venue are set by the university and will be announced in class.

GRADE DESCRIPTORS

A / A-	Outstanding/Generally outstanding performance on all learning outcomes.
B+ / B / B-	Substantial performance on all learning outcomes, OR high performance on some learning outcomes which compensates for less satisfactory performance on others, resulting in overall substantial performance.
C+ / C / C-	Satisfactory performance on the majority of learning outcomes, possibly with a few weaknesses.
D+ / D	Barely satisfactory performance on a number of learning outcomes
F	Unsatisfactory performance on a number of learning outcomes, OR failure to meet specified assessment requirements.

CLASS PARTICIPATION

This is your education! I have generally found that students who come to all the classes score well and students who skip out all the time perform badly.

Please be adult, be responsible, be respectful and be kind in the classroom.

This includes:

1. Come to class on time and stay to the end. If you must leave early, let me know at the beginning of the class and leave quietly. If you get here late, enter quietly.
2. Don't chat during the lectures. This is a distraction to those of us who are engaged in learning.
3. Be respectful of others who may have different views and backgrounds than your own. Do not use derogatory or vulgar language in the classroom. It is the University's policy that students attending classes should be well taken care of. Since all students have the right to attend classes, those students who have chosen not to attend classes should respect the wish of others who want to attend classes.
4. Turn off your cell phone or put it in vibration/silent mode.

HONESTY IN ACADEMIC WORK

The Chinese University of Hong Kong places very high importance on honesty in academic work submitted by students and adopts a policy of *zero tolerance* on cheating in examinations and plagiarism. Any related offence will lead to disciplinary action including termination of studies at the University.

Attention is drawn to University policy and regulations on honesty in academic work, and to the disciplinary guidelines and procedures applicable to breaches of such policy and regulations. Details may be found at

<http://www.cuhk.edu.hk/policy/academichonesty/>.

SUCCESSFUL STUDENT STRATEGIES

1. Attend each class.
2. Read text before class.
3. Ask questions, when material is unclear.
4. Review notes and text after class.
5. Do all the homework assignments and study in advance of the exam.