

ECO 310
Fall 2010

Money, Credit and Financial Markets Dr. Michele Naples
OH: TF 8-8:30, 11:30-12:30, by appt. naples@tcnj.edu; x2896 BB 128

Read all Appendices

Week		Mishkin chapters
I	Introduction, the credit market, money	chs 1-3
II	Lender's risk, financial intermediation, banks <i>D&S pick 2</i>	ch 4, 5
III	Risk and term structure of interest rates, stock market Wolfson 1994 Ch 2-3 Cyclical Theories of Financial Crises 9-28 <i>D&S 1.6 We're All Minskyites Now Robert Pollin</i> <i>D&S 1.8 Profits, the Business Cycle, and the Current Crisis Paul Mattick</i>	ch 6, ch 7 (-156)
IV	Financial institutions, subprime mortgages, financial crisis J. Crotty & G. Epstein, 2008. The Costs and Contradictions of the Lender-of-last-Resort Function in Contemporary Capitalism: The Sub-Prime Crisis of 2007-2008, PERI <i>D&S 4.1 From Tulips to Mortgage-Backed Securities Gerald Friedman</i> <i>D&S 4.2 Ponzi Schemes & Speculative Bubbles Arthur MacEwan</i>	ch 8, 9
V	To be a bank, evolution of banking industry <i>D&S pick 2</i>	ch 10, 12
VI	Logic of bank regulation, S&L crisis, international financial crises Wolfson 1994 Ch 13 Noncyclical Theories of Financial Crises 201-211 <i>D&S 1.7 The "Credit Tsunami" Steve Keen</i> <i>D&S 4.3 Derivatives and Deregulation Marty Wolfson</i>	ch 11
VII	MIDTERM Friday Oct. 15	
VIII	Central Bank structure, deposit creation, determinants of Ms Review your intro macro notes on the money market O. Gokcur & K. Erturk, 2008. Endogenous Money in the Age of Financial Liberalization, PERI Louis-Philippe Rochon 2010, Alfred Eichner, Post-Keynesians, and Money's Endogeneity, in Marc Lavoie et al., <i>Money and Macrodynamics: Alfred Eichner and Post-Keynesian Economics</i> . <i>D&S 5.1 Pushing on Strings Gerald Friedman + 1</i>	ch 15-17* (skim what's familiar, read rest)
IX	Fed policy tools & goals, money demand <i>D&S 5.4 Focus on the Fed William Greider</i> <i>D&S 5.5 Keynes and the Limits of Monetary Policy Alejandro Reuss</i>	ch 18, 22*
X	PAPER DUE Tuesday Nov. 9 Financialization of industry and macroeconomic fragility Oscar Orhangazi, Financialization and Macroeconomic Fragility, Goldstein & Hillard <i>D&S 2.5 Financialization: A Primer Ramaa Vasudevan</i> * Gerald Epstein, Ed. 2004, <i>Financialization and the Global Economy</i> Edward Elgar.	
XII	Monetary policy transmission mechanisms Steven Fazzari, 1993. Monetary Policy, Financial Structure, and Investment, Dymski et al. ch 3 <i>D&S 2.10 Can the Fed Handle a Systemic Crisis? Maybe. Jane D'Arista</i>	ch 24^
XIII	Monetary policy & inflation Marty Wolfson, 2008. Federal Reserve Priorities and the Influence of Capital: The	ch 25^

Evolution of Monetary Policy in the Postwar Period, PERI
D&S 5.3 The Bailouts Revisited *Marty Wolfson*
D&S 5.4 Focus on the Fed *William Greider*

XIV Review

REQUIRED TEXT:

Mishkin, Frederic S. 2010. *The Economics of Money, Banking, and Financial Markets* 9th Ed. Pearson Education, Inc.
[D&S] Dollars & Sense, 2009. *The Economic Crisis Reader*. Boston: Dollars & Sense.

RECOMMENDED TEXTS:

[D&S] Dollars & Sense, 2008. *Real-World Money and Banking* 5th Ed., Boston: Dollars & Sense. [table of contents: http://www.dollarsandsense.org/bookstore/banking_toc.html]

Dymski, Gary A., Epstein, Gerald and Pollin, Robert., Eds. 1993. *Transforming the US Financial System: Equity and Efficiency for the 21st Century*. Armonk NY: M. E. Sharpe, Inc.

Goldstein, Jonathan and Hillard, Michael, Eds., 1997. *Heterodox Macroeconomics: Marx, Keynes and Crotty*, Routledge.

[PERI] The Political Economy of Monetary Policy and Financial Regulation: A Conference in Honor of Jane D'Arista, Political Economy Research Institute, University of Massachusetts-Amherst, May 2008.

Wolfson, Martin H. 1994. *Financial Crises: Understanding the Postwar US Experience*. Armonk NY: M. E. Sharpe, Inc.

http://books.google.com/books?id=qqDbTDOWMBcC&printsec=frontcover&dq=martin+h.+wolfson+financial+crises+isbn&source=bl&ots=PdPelAYqOk&sig=DO-yhYErX9Bup-VPN2iUN2ItJg&hl=en&ei=3QR8TPbvJMGqIAfn3cm1Cg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBkQ6AEwAA#v=onepage&q=martin%20h.%20wolfson%20financial%20crises%20isbn&f=false

GRADES: Each assignment contributes to your final grade as follows: D&S Summary 3%, Problem sets, 3 @ 3%=9%; midterm 25%; paper 25%; final exam 30%, attendance & participation 8%.

ASSIGNMENTS

Problem Sets: The class will divide up alphabetically, so that each week one-third of the class turns in that week's problem set for a grade. So Problem Set # 1 (P#1), covering Week I's material, is turned in by the first third of the alphabet during Week II, P#2 is turned in by the middle part of the alphabet during Week III, P#3 is turned in by the end of the alphabet during Week IV. In all you will submit three problem sets. You will be responsible for presenting and explaining your answers to the class.

You are encouraged to form study groups and to work together on the problem sets out of class. You will learn much more this way, both from fellow students, and from having to explain to others what you yourself have learned. In the past, students have said that problem sets are the best way to prepare for exams in this course, so you should do the problem sets every week. You

are encouraged to use SOCS to email classmates to plan for study group meetings. However, each student has to prepare his/her own answers to homework problems to learn the material.

Late problem sets will not be accepted after we go over them in class. You can make up a problem set if you were sick, or if you make arrangements in advance because of a religious holiday or other commitment.

Summaries of *Dollars & Sense* essays

Supplementary essays from *Dollars & Sense, The Economic Crisis Reader*, are assigned most weeks. Some weeks the author is specified; often “pick 2” is specified, then those students assigned to that week will browse through the book and identify which essay they’ve chosen the class before they are scheduled to present, preferably by SOCS email. Everyone will read the essays chosen, but presenters’ job is to summarize the essay at the beginning of the second class of the week they’re assigned, to explain how it relates to the week’s material, and/or to contrast its analysis with the textbook. Your Summary grade will be your course grade, unless you fail to show up for class or come unprepared, in which case you will earn an F.

Research Paper, 6-10 pp.

Use at least 10 sources published in books or refereed journals; any relevant material from Mishkin or *Dollars & Sense* will be expected to be among your references. One-third of your sources may be news outlets (*WSJ, NYT, Economist*), more if you’re working in a foreign language. No Internet sources permitted unless they are virtual versions of otherwise legitimate sources, including government documents. You are encouraged to examine and include primary data.

Your paper should use internal footnotes to the extent possible (e.g., (Naples and Aslanbegui 2006:D2) to cite the 2006 article coauthored by Naples and Aslanbeigui on p. D2), and must be double-spaced, 12-point type, have 1" margins, page numbers, include the following: your name, class section, social-security number, major, campus address, campus phone number, and include a bibliography using APA (American Psychological Association) format, see this Purdue website:

<http://owl.english.purdue.edu/owl/resource/560/01/>.

You would be wise to refer to the following esource as well: Lipson, C. (2006). *Cite Right: A Quick Guide to Citation Styles – MLA, APA, Chicago, the Sciences, Professions, and More*. University of Chicago Press: Chicago ch 5, accessible through the library catalog:

<http://libcat.tcnj.edu:7009/vwebv/holdingsInfo?searchId=1660&recCount=10&recPointer=0&bibId=696174>

School of Business policy requires students to write well. Get a copy of the *Grammar Guide* by Naples in the School of Business *Writing Guide*

http://www.tcnj.edu/~business/documents/SOB_05-06_Writing_Guide.pdf

Read it. Any mistakes which are warned against in the *Writing Guide* will cause you to lose points off your paper grade. The paper will receive both a writing grade and a content grade, **which will be multiplied** to give the paper's grade. So if you get an A on your writing grade, your content grade will effectively be your paper grade. But poor writing will reduce your paper grade below the content grade. If you get an **80** on content and an **80** on writing, you will have a **64** for your paper grade. Any unsatisfactory writing grade (less than B-) is unacceptable; such a paper must be rewritten to complete the course requirements. If your rewrite is unacceptable, you will fail the paper, so get help if you need it, from me or from other campus resources. Students with writing difficulties are expected to take corrective steps. There are resources available on campus to help students improve their writing--the Office for Academic Enhancement in Forcina Hall (x 3000). Feel free to work with a tutor before turning your paper in.

Submit paper copies in class, but also put a virtual copy in your Dropbox on SOCS.

Paper Topics:

A. Financial Innovation and Its Impact: Focus on a particular example of financial innovation over last 20-30 years and trace its history, including where applicable (1) flight from regulatory oversight, (2) competition with banks, (3) extent of market growth, (4) implications for fragility, financial crisis, or re-regulation. Be explicit about the winners and losers from this new financial instrument or lending strategy. Give concrete historical examples.

B. Financial Crisis in Recent History: Focus on a particular example of financial crisis over the last 20-30 years and trace its history. Identify both structural fault lines and the triggers. Consider regulatory failure, market failure, conflicts of interest within the financial sector or between finance and interest. Trace how individual rational self interest can lead to outcomes irrational for the economy as a whole.

C. Changing the Financial System: Focus on a particular aspect of financial crisis and regulatory proposals associated with managing it or preventing a recurrence. Be explicit about the winners and losers from this new proposal. Give concrete historical examples of any related policy initiatives and their unanticipated consequences.

D. Languages Across the Curriculum: A one-credit pass-fail Languages Across the Curriculum LAC 391 independent study may be added to this course for those students who have at least intermediate level proficiency in another language and who wish to complement the work in this course by utilizing their language skills. Please visit the LAC website, <http://internationalstudies.intrasun.tcnj.edu/grant/lac.html>, for more information. Students must contact the Director, Dr. Compte (dcompte@tcnj.edu), to enroll in the LAC independent study by the end of the first week of classes, and must first obtain my approval for how they plan to incorporate foreign-language sources into their research paper. I encourage you to take advantage of this great opportunity, unique to TCNJ.

You will have to read at least 5 sources in a foreign language. Pick a foreign country and analyze financial difficulties in some sector, whether recession-driven, or reflecting deeper problems (like Topic B).

Examples of acceptable topics:

- Development and Consequences of Financial Derivatives
- Secondary mortgage market: development and consequences
- East Asian crisis: structural vulnerability and triggers
- Savings and Loan crisis: structural vulnerability, regulatory missteps, triggers
- The investment bank crisis: causes, consequences, and regulatory initiatives

ADDITIONAL INFORMATION: This is a one-credit course (4 semester-hours).
Prerequisite: ECO 102 Macroeconomic Principles

Course Description: An examination of the behavior and functions of money, financial markets, and financial institutions. The role of credit, flow of funds, importance of interest rates, efficiency and stability of financial markets, and the role of the Federal Reserve Bank are also examined. A research paper is required.

Course Purpose: To analyze the process whereby economic activity is financed, in a world of fractional-reserve banks and other forms of financial intermediation. To evaluate the structure of the financial system as it has evolved through financial innovations and is in the course of being purposefully changed. To assess the triggers and structural infirmities that contribute to financial crises.

Learning Goals: At the completion of the course, students should be able to speak knowledgeably about basic economic ideas and perspectives on money, credit and financial markets, and constructively evaluate economic arguments. Students should exhibit proficiency in using precise mathematical statements and graphs as a method of summarizing a series of financial economic relationships. In a research paper, students learn to apply and analyze economic arguments on a concrete topic.

Statement of Adherence to TCNJ Attendance Policy This course adheres – for policy see: <http://www.tcnj.edu/~recreg/policies/attendance.html>

Statement of Adherence to TCNJ Academic Integrity Policy This course adheres – see policy: <http://www.tcnj.edu/~academic/policy/integrity.html>

Don't cheat, there will be consequences.

Statement of Adherence to TCNJ Americans with Disabilities Act (ADA) policy This course adheres – for policy see: <http://www.tcnj.edu/~affirm/ada.html>

If you have any special needs that have not been classified, talk to me.