

ECO–228: Economics of Financial Markets

Prerequisites: ECO 113-114.

Fall 2015

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Lectures: SC 224, T TH 08:30 AM–09:45 AM

Office hours: T Th 10 AM–12 PM

or by appointment.

Course website: <https://canvas.lemoyne.edu>

Log in with your Le Moyne ID and password.

Course Description

Financial institutions are important for economic growth. A well-functioning financial market promotes investment and hence enhances economic growth. Commercial banks are the most important players in the financial market and their actions can affect output. Federal Reserve can affect the functioning of the financial markets through direct regulation and monetary policy. Monetary policy thus plays an important role in stabilizing the economy in the short-run. The goal of this course is to present students with an overview of the financial markets, Federal Reserve system, and monetary policy theory, and the functioning of commercial banks.

Learning Objectives

- Understand the importance of financial system for economic growth.
- Understand the meaning of money and learn how it is measured.
- Understand the meaning of interest rates and learn how to calculate yield to maturity.
- Understand the functioning of the bond market and learn why interest rates are different for bonds with different term and risk structure.
- Understand how stock prices are determined.
- Understand the role played by the financial institutions, especially commercial banks, in affecting the money supply through fractional reserve banking system.
- Identify the determinants of aggregate demand (AD) and aggregate supply (AS). Develop the ability to identify the business cycle phases and determine their effects on macroeconomic variables using the AD-AS framework.
- Understand the structure of the Federal Reserve and its role in determining the money supply.
- Understand the role of Federal Reserve and monetary policy in stabilizing the economy, and the unemployment-inflation trade-offs that policymakers face in attaining macroeconomic stability in the short-run.

Course Materials

Required Textbook: Frederic S. Mishkin. *The Economics of Money, Banking, and Financial Markets*. Business School Edition. Fourth Edition. Prentice Hall, 2015. (ISBN: 978-0-13-385980-5). The book may be available for a cheaper price elsewhere such as Amazon, and may be cheaper in other formats such as e-text or loose-leaf. Access to www.pearsonmylab.com is not required.

Additional Readings: Articles from the popular press and Federal Reserve's website will be assigned periodically. Links to these articles or copies of the articles will be posted on [Canvas](#). Some of the assignments will involve downloading and analyzing macroeconomic data from websites such as [Fred](#), the [Bureau of Economic Analysis](#), and the [Bureau of Labor Statistics](#).

Requirements: A knowledge of Excel is expected from students to analyze these data, and create graphs and scatter plots to explore trends and relationships. The use of Excel may also be needed for calculating interest rates. Additionally, students are assumed to know high school algebra.

Grading Scale

90– < 93	A–	> 93	A		
80– < 83	B–	83– < 87	B	87– < 90	B+
70– < 73	C–	73– < 77	C	77– < 80	C+
60– < 70	D				
< 60	F				

Grading Policy

Graded Item	Weight	Description
Homework	20%	5 homework assignments – 4 points each. Working in group is allowed, but simply copying someone's homework will be considered as "cheating".
Quizzes	10%	Approximately 4-5 unannounced quizzes. You get half the points just for taking them.
Midterms	40%	3 midterm exams – 20 points each. Only 2 are counted towards your grade – exam with the lowest score will be dropped.
Comprehensive Final	30%	

Students with Disabilities

If you have a disability and need accommodations, please meet with me within the first two weeks of the semester to review your accommodation sheet. You should meet with someone from the

Office of Disability Support Services each semester to review your documentation. The Office is located in the Library (1st floor; 445 4118; dss@lemoyne.edu).

Missed Exam, Project, and Homework Policy

If you miss one of the midterms, your grade in the missed exam will be dropped. If you miss more than one midterms, you will be given a make-up exam only if you missed the exam for a valid excuse and you provide me with a written documentation. Any exams missed without a legitimate excuse and written documentation will receive a grade of zero. You have one week from the missed exam date to produce officially approved written documentation. In case of homework assignments, there will be no make-ups, but I will drop the missed assignments from your grade if you submit the approved documentation. The college approved excuses can be found at <http://www.lemoyne.edu/tabid/3070/default.aspx>.

Observance of Religious Holidays

As provided in New York State Education Law Section 224-a, any student who is unable to register for class, attend class, or participate in any examination, study or classwork requirements on a particular day because of his or her religious beliefs is eligible for an equivalent opportunity to register for classes or make up any missed examination, study, or classwork requirements, without penalties or additional fees. For details, see the “Class Attendance” section of the College catalog or the “[Academic Life](#)” section of the Student Handbook.

Tutoring

Tutoring @ Le Moyne, located in the back of the library, on the first floor, is open M-Th 9am-9pm, F 9am-4pm, and Sun 5pm-9pm. Peer tutors are available for most subjects. To sign up, visit <https://lemoyne.mywconline.com/> to create an account and log in to select the current semester’s schedule. If you need tutoring for a subject not listed, please email tutoring@lemoyne.edu. Tutoring is free for all students and is available from the second week of classes through the last day of classes.

Academic Standards

Students are expected to observe at all times the highest ethical standards as members of the academic community. Any form of dishonesty makes a student liable to severe sanctions, including expulsion from the College. For details, see the “Academic Standards” section of the College catalog or the Student Handbook.

Class Attendance Policy

- Please enter the classroom on time and do not leave before the lecture is over.
- Please either switch off your cellphone or put it in silent mode before you enter the class.

- Please refrain from engaging in conversation with your friends or reading magazines and any literature unrelated to the course during lectures.
- You may not use any electronic gadgets such as cellphone, iPads, tablets, and laptops during the lecture.

Tentative Course Outline

- September 1 – Introduction; An Overview of the Financial System (Ch 2).
- September 3 – An Overview of the Financial System (Ch 2).
- September 8 – What is Money? (Ch. 3).
- September 10 – The Meaning of Interest Rates (Ch. 4).
- September 15 – The Meaning of Interest Rates (Ch. 4).
- September 17 – The Behavior of Interest Rates (Ch. 5).
- September 22 – The Behavior of Interest Rates (Ch. 5).
- **September 24 – Midterm Exam 1 (Chapters 2–5).**
- September 29 – Exam overview & The Risk and Term Structure of Interest Rates (Ch. 6).
- October 1 – The Risk and Term Structure of Interest Rates (Ch. 6).
- October 6 – The Stock Market, the Theory of Rational Expectations, and the Efficient Market Hypothesis (Ch. 7).
- October 8 – The Stock Market, the Theory of Rational Expectations, and the Efficient Market Hypothesis (Ch. 7).
- October 13 – Fall break. No Class.
- October 15 – Banking and the Management of Financial Institutions (Ch. 9).
- October 20 – Banking and the Management of Financial Institutions (Ch. 9) & Central Banks and the Federal Reserve (Ch. 16).
- October 22 – Central Banks and the Federal Reserve (Ch. 16).
- **October 27 – Midterm Exam 2 (Chapters 6, 7, 9, & 16)**
- October 29 – Exam overview & The Money Supply Process (Ch. 17).
- November 3 – The Money Supply Process (Ch. 17) & Laury, S.K. and Holt, C.A. (2000). “Classroom Games: Making Money”. *Journal of Economic Perspectives*, Vol. 14 (2), 205-213.
- November 5 – No class. **Plan to attend Len Burman’s talk to be held in Grewen Auditorium from 5–6:15pm. Questions from the talk will be on the test.**

- November 10 – Tools of Monetary Policy (Ch. 18).
- November 12 – Tools of Monetary Policy (Ch. 18) & The Conduct of Monetary Policy: Strategy and Tactics (Ch. 19).
- November 17 – The Conduct of Monetary Policy: Strategy and Tactics (Ch. 19).
- November 19 – Aggregate Demand and Supply Analysis (Ch. 23).
- November 24 – Aggregate Demand and Supply Analysis (Ch. 23).
- November 26 – Thanksgiving break – No class.
- **December 1 – Midterm Exam 2 (Chapters 17, 18, 19, & 23)**
- December 3 – Exam 3 Review; Monetary Policy Theory (Ch. 24).
- December 8 – Monetary Policy Theory (Ch. 24) &
Dale, D. 2009. “[The Genesis of a Crisis](#)”. *Economic Insights, Colorado Council on Economic Education*, Vol. 3 (1), 1-7.
- December 10 – Review.
- **December 17 – Cumulative Final Exam – Thursday, 12:00–02:30 PM.**