

Money, Credit and Banking

Econ 243-003

Prof. Harold Cole
436 McNeil Bldg
colehl@sas.upenn.edu

Fall 2012
MW 2-3:30
MCNB 286

This course studies the role that financial markets, institutions and money play in resource allocation. We explore these questions analytically, using the tools of economic theory.

Grading: Midterm 40% (closed book), Final Examination 60% (closed book)

Textbook: The required textbook for the course is 'Money and Banking' by Vincenzo Quadrini and Robert Wright, 2008, Flatworldknowledge.com (QW). The students can read the textbook at <http://www.flatworldknowledge.com>. The book will NOT be available for purchase in the bookstore. Students who wish to buy the hard copy need to order it themselves at Flatworldknowledge. In addition to the textbook, there will be supplemental readings. This will include an additional textbook: 'Modeling Monetary Economies' by Champ, Freeman and Haslag, 2011, Cambridge University Press (CFH). The references provided below are indicative and may change in due course.

Office Hours: Tuesday 11-12.

Course Outline:

I. An Overview of the Financial System

Reading: WQ chs. 1-2.

II. Two Simple Models of Money

The OLG model

The Inventory Model

Reading: WQ chs. 3 and 20. and CFH ch. 1

III. Valuation Models

The Risk Neutral Model

Pricing Bonds and Stocks

Nominal Asset Pricing

Liquidity Benefits from Short-term Bonds

Risk Aversion

Readings: WQ chs. 4-6.

IV. Financial Frictions and The Firm

Optimal Investment Decisions

Modigliani-Miller Theorem

Frictions and Capital Structure

V. The Role of Banks

- Economizing on Costs
- Transforming Maturity
- Bank Runs

VI. Financial Regulation

- Deposit Insurance
- Limiting Risk Exposure

VII. Financial Institutions and Monetary System

- The Role of Money
- The Role of Financial Intermediaries

VIII. Monetary Policy and Financial Crisis

- Monetary Policy
- Financial Crisis and Policy Reaction