

Money, Credit and Banking

Econ 246

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Fall 2017
TTH 3-4:30
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This course studies the role that financial markets, institutions and money play in resource allocation. We explore these questions analytically, using the tools of modern economic theory, and also try and get a quantitative feel for the data

Grading: There will be two Midterms and the Final Examination. In addition there will be regular homework assignments. We will count your highest midterm exam 40%, the final exam 45%, and the homeworks 15%. If you miss one of the midterms, we simply use the one you took. (*Missing both midterms will lead to a grading penalty.*) All exams will be closed book. Exam and homework scores will be combined by converting to standard normals and weighting to obtain a final score.

Textbook: The course uses an evolving set of lecture notes and the lecture slides as the primary source. The slides will be posted on Canvas. The lecture notes can be found at my Google cite: <https://sites.google.com/site/haroldlinhcole/>
The lectures and the slides will be updated as we go along. The course also draws upon several texts. You may want to buy some or all of them. The main text is:

- 'Money, Banking, and the Financial System' by Glen Hubbard and Anthony O'Brien (HB). (any edition is fine.)

In addition to the textbooks, there will be some books that one can consult for supplemental information:

- 'Money and Banking' by Vincenzo Quadrini and Robert Wright, 2008, Flatworldknowledge.com (QW).
- Robert Barro, Macroeconomics, MIT Press.
- Brealey and Myers, Principals of Corporate Finance, McGraw-Hill. (BM)
- Nail Ferguson, The Ascent of Money, Penguin Press.

The references provided below are indicative and may change in due course.

Friday Reviews: We will have some review sessions and a few make-up classes on Fridays afternoons.

TA: Pengfei Han will post his office hours on Canvas. These too may be updated later.

Office Hours: Currently scheduled @ Tuesday 11-12. However this can change so please check the announcements on Canvas for updates.

Tentative Midterm dates: Oct. 3 and Nov 9.

Course Outline:

I. An Overview of the Financial System

Reading: WQ chs. 1-2. HB ch 1.

II. Models of Money Demand

Reading: HB ch 2, WQ chs. 3 and 20, Barro ch. 4, Ferguson ch. 1..

III. Valuation Models

The Risk Neutral Model

Pricing Bonds and Stocks

Nominal Asset Pricing

Liquidity Benefits from Short-term Bonds

Risk Aversion

Arbitrage Pricing

Readings: HB chs 3-6, WQ chs. 4-6, BM ch 8.

Additional source: John Cochrane, Asset Pricing, ch. 1 (this is a graduate text)

IV. Financial Frictions and The Firm

Optimal Investment Decisions

Modigliani-Miller Theorem

Frictions and Capital Structure

Readings: Barro ch. 9 and BM ch. 9.

V. Financial Intermediation

Readings: HB ch 9-11 and Ferguson ch. 1-2

VI. Financial Regulation

Deposit Insurance

Limiting Risk Exposure

Readings: HB 12

VII. The Fed and Monetary Policy

The Fed: orgin and operation

Monetary policy and the FOMC

Independence

Readings: HB 13-15.

VIII. Debt, Government Spending and Inflation

Readings: Ferguson ch. 2-3.

IX. Debt, Default and Interest Rates

X. The Great Recession