

Spring 2024

ECON 357
Money, Credit, and Banking

TTH, 4:00 – 5:20
SOS B44

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Course description

This course consists of four parts. First, we will study Financial Markets and institutions and their effect in the economy and its performance. In this section we start with an overview of the financial markets and role of money, then we talk about interest rate and bonds, then stocks, theory of stock valuation and efficient market hypothesis is discussed. Next, we will look at financial intermediaries and role of banks in the economy. In the third part, we study the role of the Federal Reserve in monetary policy and overseeing the banking system. Monetary policy and its processes are also explained. Finally, we will discuss foreign exchange market and study how exchange rate is determined in this market. We will also look at the effect of exchange rate on the economy.

Learning Objectives:

- Identify the structure and components of financial markets and understand different financial instruments and financial intermediaries.
- Describe money, its functions and the payments systems.
- Calculate present value of future cash flows, and understand, define and calculate different interest rates.
- Describe equilibrium interest rate in the bond market and money market.
- Understand and explain risk and term structure of interest rate.
- Calculate stock price based on stock price valuation models and understand factors that affect it, explain adaptive expectation and rational expectations models and efficient market hypothesis.
- Explain role of financial intermediaries, asymmetric information, adverse selection and moral hazard.
- Understand bank's balance sheet and management of its profit and risk.
- Understanding central banking and monetary policy.
- Understanding the workings of foreign exchange market and factors that affect exchange rate.
- Understand and interpret equilibrium in the market for foreign exchange.

Prerequisite:
Econ 205, ECON 203

Required Materials

"The Economics of Money and Banking and Financial Markets" 13th Edition by Frederic S. Mishkin.

Homework

All problem sets will be posted on the Blackboard. I will announce them in class when they are posted on the Blackboard, however, you are ultimately responsible for periodically checking the system to see whether you have work that is due. Each individual must submit their own entry; however, I encourage you to collaborate and work in groups. Detailed solutions will be posted on the website after the homeworks are collected. No late homeworks are accepted, **EVER!**

Quizzes:

There is going to be regular announced or unannounced quizzes in class based on the material discussed immediately before the quiz.

Exams

It is your responsibility to show up on time for the exams. You may not make-up any exams after the scheduled exam dates unless for a valid reason such as illness (written proof required; a job interview is not a valid reason). There will be two mid-term exams and one cumulative final.

Grading

Midterm1: 30%, Midterm2: 30%, Final: 30%, Homework: 5%, Quizzes: 5%. To calculate final grade, I will take a weighted average of exams and homework grades and assign letter grades.

F < 59 ≤ D- < 62 ≤ D < 66 ≤ D+ < 69 ≤ C- < 72 ≤ C < 76 ≤ C+ < 79 ≤ B- < 82 ≤ B < 87 ≤ B+ < 90 ≤ A- < 93 ≤ A.

Topics – (All dates are tentative)

Week	Topic	Chapter
Jan 8	Introduction, Overview of financial System	1,2
Jan 15	What is Money	3
Jan 22	The meaning of Interest rate	4
Jan 29	The behavior of Interest rate	5
Feb 5	Risk and term structure of interest rate, Review	6
Feb 12	Midterm Exam Feb 13 th , Risk and Term Structure of Interest rate	6
Feb 19	Stock Market, theory of rational expectation, efficient Market Hypothesis	7
Feb 26	Economic Analysis of financial Structure	8
Mar 4	Banking and management of financial institutions	9
Mar 11	Spring Recess	
Mar 18	Central Bank and the Federal Reserve System, Review	13
Mar 25	Midterm Exam March 26 th , Central Bank and the Federal Reserve System	13
Apr 1	The Money Supply Process	14
Apr 8	Tools of Monetary policy	15
Apr 15	The Conduct of Monetary Policy: Strategy and Tactics	16
Apr 22	Foreign exchange Market, Review	17
May 2	Final Exam, Tuesday 4:30 -6:30 pm	

Work Environment and Attendance Policy

- Endeavor to be on time.
- Turn cell phones off.
- In deference to those around you, refrain from talking.
- I take all forms of academic dishonesty very seriously because it damages the reputation of the school. I will report any such behavior.

Statement on Academic Conduct and Support Systems

Academic Conduct

- Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Section 11, Behavior Violating University Standards <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/> . Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the Office of Equity and Diversity <http://equity.usc.edu/> or to the Department of Public Safety <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us> . This is important for the safety whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. The Center for Women and Men <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage sarc@usc.edu describes reporting options and other resources.

Support Systems

- A number of USC’s schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the American Language Institute <http://dornsife.usc.edu/ali> , which sponsors courses and workshops specifically for international graduate students. The Office of Disability Services and Programs http://sait.usc.edu/academicssupport/centerprograms/dsp/home_index.html provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, USC Emergency Information

<http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

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