

COLUMBIA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

MONEY & FINANCIAL MARKETS
B8351

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GENERAL DESCRIPTION

This is a lecture course that provides analytic frameworks to help you understand more generally how financial markets and institutions work, thus helping you to see the forest rather than the trees. In addition, it will focus on many public policy issues and examine how the most important player in the financial markets, the Federal Reserve, operates and how monetary policy is conducted. We will also focus on current events reported in the financial press.

REQUIRED TEXTS

- (M) Mishkin, F.S., *The Economics of Money , Banking and Financial Markets*, Fifth Ed. (Addison-Wesley: Reading, Mass. 1998). Available from the bookstore.
- (F) Federal Reserve Bank of New York *Economic Policy Review*, Special Issue on Inflation Targeting, August 1997, Vol. 3, # 3. Shrink wrapped with a new copy of the textbook.
- (C) Casebook

OPTIONAL READINGS

A good source of current readings on money and financial markets is:

(EM) Eaton, J.W. and F.S. Mishkin, *1999 Readings to Accompany the Economics of Money, Banking, and Financial Markets*. Available free on the internet: access via <http://hepg.awl.com>, then put "Mishkin" in keyword box, click go, click "Student Resources", click "Visit the Readings Page" and then click on the article you are interested in. Note that this website has other information and related links that you might find of interest.

Other readings are available from the Reserve Desk at the Library.

EXAMS, PROBLEM SETS AND CLASS PARTICIPATION

The course will have a final and it will count for the whole grade. There will be 7 problem sets, to be completed individually, which if not turned in will reduce your final grade by 1/2 of a grade. Class participation will not be graded and is strictly voluntary but essential.

OFFICE HOURS

Office hours are Monday and Wednesday, immediately after class or from 3-5. (An e-mail to let me know if you are coming at a particular time is highly recommended.)

TEACHING ASSISTANT

The teaching assistant for the course is Cornelia Kullmann. She will conduct problem set review sessions after every two problem sets. She is available for office hours in Cubicle 6U from 2:00 to 3:00 on Mondays and Wednesdays, on request or by appointment. Her e-mail address is ck139@columbia.edu.

TOPICS AND SPECIFIC READINGS

I. INTRODUCTION AND REVIEW

- (M) Ch. 1 Why Study Money, Banking and Financial Markets
 Ch. 2 An Overview of the Financial System
 Ch. 3 What is Money?
 Ch. 4 Understanding Interest Rates
 Ch. 5 Portfolio Choice
 Ch. 27 Theory of Rational Expectations and Efficient Capital Markets

Optional:

- (EM) Readings 1-5, 31.
 Radford, R.A., "The Economic Organization of a Prisoner of War Camp," *Economica* (November 1945) pp. 189-201.
 Lehmann, M.B., *The Business One Irwin Guide to Using The Wall Street Journal*, 3rd Edition (Homewood, Ill.: Dow Jones-Irwin, 1990)

II. FINANCIAL MARKETS

- (M) Ch. 6 The Behavior of Interest Rates
 Ch. 8 The Foreign Exchange Market

Optional:

- (M) Ch. 7 The Risk and Term Structure of Interest Rates
 (EM) Readings 5-8.
 Stigum, M., *The Money Market*, 3rd edition (Homewood, Ill.: Dow Jones-Irwin, 1989).
 Van Horne, James C., *Financial Markets Rates and Flows*, 4th Edition (Englewood Cliffs, N.J.: Prentice Hall 1994) Chapters 3, 4, 5, and 8.
 Krugman, Paul R. and Maurice Obstfeld, *International Economics: Theory and Policy*, 4th Edition (New York: HarperCollins, 1997)
 Kubarych, R.M., *Foreign Exchange Markets in the United States* (Federal Reserve Bank of New York; New York, 1983).

III. FINANCIAL INSTITUTIONS

- (M) Ch. 9 Economic Analysis of Financial Structure
- (C) Mishkin, F.S. "Understanding Financial Crises: A Developing Country Perspective," in Michael Bruno and Boris Pleskovic, eds., *Annual World Bank Conference on Development Economics 1996* (World Bank: Washington D.C. 1996): 29-62.
- (M) Ch. 10 The Banking Firm and the Management of Financial Institutions
- Ch. 12 Economic Analysis of Banking Regulation
- Ch. 13 Nonbank Financial Institutions

Optional:

- (M) Ch. 14 Financial Derivatives
- (EM) Readings 9-13, 17-19.
- Kane, E.J., "Accelerating Inflation, Technological Innovation, and the Decreasing Effectiveness of Banking Regulation," *Journal of Finance* 36 (May 1981): 355-67.
- Franklin R. Edwards and Cindy W. Ma, *Futures and Options* (McGraw Hill: New York, 1992)

IV. CENTRAL BANKING AND THE MONEY SUPPLY PROCESS

- (M) Ch. 15 Structure of Central Banks and the Federal Reserve System
- Ch. 16 Multiple Deposit Creation and the Money Supply Process
- Ch. 17 Determinants of the Money Supply

Optional:

- (EM) Readings 20-21.

V. CONDUCT OF MONETARY POLICY

- (M) Ch. 18 Tools of Monetary Policy
- Ch. 19 Conduct of Monetary Policy: Goals and Targets

Optional:

- (EM) Readings 22, 29.
Akhtar, M.A., *Understanding Open Market Operations* (Federal Reserve Bank of New York, 1997)
- Friedman, M., and Schwartz, A.J., *A Monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963).

VI. THE INTERNATIONAL FINANCIAL SYSTEM

- (M) Ch. 20 International Financial System
- (C) Obstfeld, M. and K. Rogoff. "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives* 9 (Fall 1995): 73-96.
- (C) Mishkin, F.S., "The Dangers of Exchange Rate Pegging in Emerging-Market Countries" *International Finance*, Vol 1, # 1 (October 1998): 81-101.
- (C) Mishkin, F.S., "Lessons From the Asian Crisis", *Journal of International Money and Finance*, forthcoming.

Optional:

- (EM) Readings 25-27.
Krugman, Paul R. and Maurice Obstfeld, *International Economics: Theory and Policy*, 4th Edition (New York: HarperCollins, 1997)

VII. INFLATION TARGETING AND INTERNATIONAL EXPERIENCES WITH DIFFERENT MONETARY REGIMES

- (C) Mishkin, F.S. "International Experiences with Different Monetary Policy Regimes," *Journal of Monetary Economics*, Vol. 43, #3 (June 1999): 579-606.
- (F) Mishkin, F.S. and A. Posen, "Inflation Targeting: Lessons from Four Countries," Federal Reserve Bank of New York, *Economic Policy Review*, vol. 3, #3 (August 1997): 9-110.

Optional:

- (EM) Reading 23-24.
Bernanke, B., Laubach, T., Mishkin, F.S. and Posen A., *Inflation Targeting: Lessons from the International Experience*, (Princeton: Princeton University Press, 1999).