GENERAL DESCRIPTION

This is a lecture course that is intended to help you understand the role that financial markets play in the business environment that you will face in the future. It also provides an understanding of the underlying institutions that either help financial markets work well or that interfere with the efficient performance of these markets. This course develops a series of applications of principles from finance and economics that explore the connection between financial markets and the economy. In addition, it will focus on many public policy issues and examine how the most important players in financial markets, central banks, operate and how monetary policy is conducted. The course will have a strong international orientation by examining monetary policy in many countries and possible reforms of the international financial system. We will also focus on current events reported in the financial press by devoting one class hour per day to an extensive class discussion of of current economic events and will use the analytic frameworks developed in class help us to understand these developments.

REQUIRED TEXTS


(C) Casebook

(W) The textbook’s website which can be found at www.pearsonhighered.com/mishkin
PROBLEM SETS, CLASS PROJECT AND CLASS PARTICIPATION

The course will have six problem sets and a class project which will be handed in after the course is over. Problem sets are in the Type B category: they are to be completed individually, but consultation with other students is allowed as long as the answers are written up separately by each student. The class project will be done by groups of students. Class participation will not be graded and is strictly voluntary but essential.

CLASS CONDUCT

Late arrival or leaving and coming back into the classroom will not be tolerated because it disrupts the class. Either arriving late or leaving and coming back into class will require that a student come see me after class to make sure it doesn’t happen again. There is a no laptop policy in class. If a student needs to leave class early for any reason, they should send me an email and sit at the outside edge of the class, so they can leave quietly without disrupting the class.

TEACHING ASSISTANT

The teaching assistant for the course is Jorge Licona. He is available for any help you may need during the term by appointment which can be made by email. His e-mail address is jem2206@columbia.edu.
TOPICS AND SPECIFIC READINGS

I. INTRODUCTION AND REVIEW

(M) Ch. 1 Why Study Money, Banking and Financial Markets
(M) Ch. 2 An Overview of the Financial System
(M) Ch. 3 What is Money?

II. FINANCIAL STRUCTURE, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH

(M) Ch. 8 An Economic Analysis of Financial Structure

Optional:

III. MANAGEMENT OF FINANCIAL INSTITUTIONS AND THEIR REGULATION

(M) Ch. 10 Banking and the Management of Financial Institutions, especially pp. 213-229.
(M) Ch. 11 Economic Analysis of Financial Regulation, especially pp. 242-257.

Optional:

(M) Ch. 12 Banking Industry: Structure and Competition
(M) Ch. 15 Conflicts of Interest in the Financial Industry

IV. THE FOREIGN EXCHANGE MARKET AND FX CRISES

(M) Ch. 20 The Foreign Exchange Market
(M) Ch. 21 International Financial System, pp. 516-533

Optional:


V. FINANCIAL CRISES

(M) Ch. 9 Financial Crises
VI. CENTRAL BANKING AND THE TOOLS OF MONETARY POLICY


(M) Ch. 16 Central Banks and the Federal Reserve System
(M) Ch. 18 The Tools of Monetary Policy
(M) Ch. 19 The Conduct of Monetary Policy: Goals, Strategy and Tactics, pp. 450-455, 470-476

Optional:

Akhtar, M.A., Understanding Open Market Operations (Federal Reserve Bank of New York, 1997)
VII. CENTRAL BANK STRATEGY AND COMMUNICATION: THE INTERNATIONAL EXPERIENCE

(M) Ch. 19 The Conduct of Monetary Policy: Strategy and Tactics, pp. 455-470.
(M) Ch. 21 International Financial System, pp. 539-545.
(C) Bernanke, B.S., “The Effects of the Great Recession on Central Bank Doctrine and -6-
Practice,” speech given at 56th Economic Conference, Federal Reserve Bank of
Boston, Boston, Massachusetts, October 18, 2011.
http://www.federalreserve.gov/newsevents/speech/bernanke20111018a.htm

(C) Mishkin, F. S., “Monetary Policy Strategy: Lessons From the Crisis” in Marek
Jarocinski, Frank Smets and Christian Thimann, eds. Monetary Policy Revisited:
Lessons from the Crisis, Sixth ECB Central Banking Conference (European Central
Bank: Frankfurt, 2011), pp. 67-118

Optional:

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