FINANCIAL MARKETS AND THE ECONOMY:  
GLOBAL ECONOMIC ENVIRONMENT III  
B8251 

Professor Frederic S. Mishkin                         Spring 2014  
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COREQUISITE:  B8250, Global Economic Environment II 

The course Global Economic Environment II (GEE II) must be taken prior or concurrently to B8251.  The first half of B8251 assumes knowledge of the material covered in the core course GEE I, while the second half of B8251 assumes knowledge of the material in GEE II, which will be completed by the time this material is required for B8251, even if both course are taken concurrently.

GENERAL DESCRIPTION 

This is a lecture course draws from the fields of Finance and Macroeconomics.  The course is intended to help students understand the role that financial markets and monetary policy play in the global economic environment that they will have to face in the future. It also provides an understanding of the underlying institutions, both political and economic, that either make financial markets work well or that interfere with the efficient performance of these markets. The course develops a series of applications of principles from finance and economics that explore the connection between financial markets, monetary policy and the macro 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 with an extensive discussion of 20-30 minutes at the beginning of every class in which we will use the analytic frameworks developed in class to help us to understand these developments.
REQUIRED TEXTS


(C) Casebook

(W) The textbook’s companion website which can be found at www.pearsonhighered.com/mishkin

EXAM, PROBLEM SETS AND CLASS PARTICIPATION

The course will have a final and it will count toward 80% of the final grade. There will be nine problem sets which will be graded and count toward 20% of the final grade. (There is one additional problem set which will not be handed in or graded: however, the material covered in the problem set will be covered in the final.) 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. Problem sets are to be handed in on the due date to me in class. However, if a student misses class, they can hand it in by getting it to my TA before the next class when the solution set is handed out. Problem sets handed in after this date will not be counted unless the student has a valid medical excuse. If a problem set is sent to me after the due date and not to the TA, it will not be counted. 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. Students are expected to attend every class, but I do not take attendance.
OFFICE HOURS

Official office hours are Monday and Wednesday, from 2-4. (An e-mail to let me know if you are coming at a particular time is highly recommended.) I am happy to see students at other times that are more convenient for them as long as an appointment is made via e-mail.

TEACHING ASSISTANT

The teaching assistant for the course is Savitar Sundaresen. Savi will conduct problem set review sessions before the final. 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 savitars@gmail.com.
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?
(M) Ch. 4 Understanding Interest Rates
(M) Ch. 7 The Stock Market, the Theory of Rational Expectations and the Efficient Markets Hypothesis

II. BOND, COMMODITY AND FOREIGN EXCHANGE MARKETS

(M) Ch. 5 The Behavior of Interest Rates, pp. 88-104.
(C) Appendix 2 to Chapter 5: Applying the Asset Market Approach to a Commodity Market: The Case of Gold. Also found on the book’s website (W).
(M) Ch. 17 The Foreign Exchange Market
(M) Ch. 18 International Financial System, pp. 446-463.

Optional:

(M) Ch. 6 The Risk and Term Structure of Interest Rates
III. FINANCIAL STRUCTURE, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH

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

Optional:


IV. 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
V. FINANCIAL CRISES

(M) Ch. 9 Financial Crises


VI. THE THEORY (SCIENCE) OF MONETARY POLICY

(M) Ch. 21 The Monetary Policy and Aggregate Demand Curves
(M) Ch. 22 Aggregate Demand and Supply Analysis
(M) Ch. 23 Monetary Policy Theory
(M) Ch. 24 The Role of Expectations in Monetary Policy

Optional:

(M) Ch. 20 The IS Curve
(M) Ch. 25 Transmission Mechanisms of Monetary Policy
(W) Appendix to Chapter 25: Evaluating Empirical Evidence: The Debate Over the Importance of Money to Economic Fluctuations
VII. CENTRAL BANKING AND THE TOOLS OF MONETARY POLICY

(C) Mishkin, F.S., "What Should Central Banks Do?" Federal Reserve Bank of St. Louis 

(M) Ch. 13 Central Banks and the Federal Reserve System
(M) Ch. 15 The Tools of Monetary Policy
(M) Ch. 16 The Conduct of Monetary Policy: Goals, Strategy and Tactics, pp. 380-385, 400-406

Optional:

(M) Ch. 14 The Money Supply Process
Akhtar, M.A., Understanding Open Market Operations (Federal Reserve Bank of New York, 1997)

VIII. CENTRAL BANK STRATEGY AND COMMUNICATION: THE INTERNATIONAL EXPERIENCE

(M) Ch. 16 The Conduct of Monetary Policy: Goals, Strategy and Tactics, pp. 385-400
(M) Ch. 18 International Financial System, pp. 469-475.
(C) Mishkin, F.S., “Does Stabilizing Inflation Contribute to Stabilizing Economic Activity?”


Optional: