COLUMBIA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

GLOBAL ECONOMIC ENVIRONMENT III:
FINANCIAL MARKETS AND THE MACROECONOMY
B8251

Professor Frederic S. Mishkin                          Spring 2018
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COREQUISITE:  B8250, Global Economic Environment II: Macroeconomic Policy

The course Global Economic Environment II (GEE II-B8250) must be taken prior to or concurrently with B8251. Knowledge of the GEE II material is only required for the second half of B8251. Taking the two courses concurrently is not only possible, but has advantages. By taking GEE II in the A-term concurrently with B8251, students will have this material fresh in their minds when they make use of it in the second half (B-term) of B8251.

GENERAL DESCRIPTION

This is a lecture course that 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 and open-ended discussion of about 30 minutes in every class in which we will use the analytic frameworks developed in class to help us to understand these developments.
REQUIRED TEXTS

(M) Mishkin, Frederic S., *The Economics of Money, Banking and Financial Markets*, 12th Edition (Pearson: Boston). Hardcopy available from the University Bookstore at well over $250, but I would recommend the e-text at around $100 which can be ordered from the publisher directly. It is also OK to purchase the 11th edition or the Global 11th Edition in the grey online market, but make sure you don’t get editions earlier than the 11th edition. Previous editions will be missing some important material.


(C) Casebook, which is electronic and can be accessed through Canvas by going to the tab *Library Reserves*, which is second from the bottom on the left-hand-side of the main screen for the course.

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

GRADING: 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 or any electronics in class (unless a student has special needs). 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.
## TOPICS AND SPECIFIC READINGS

### I. INTRODUCTION AND REVIEW

<table>
<thead>
<tr>
<th>(M)</th>
<th>Ch. 1</th>
<th>Why Study Money, Banking and Financial Markets</th>
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<tbody>
<tr>
<td>(M)</td>
<td>Ch. 2</td>
<td>An Overview of the Financial System</td>
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<tr>
<td>(M)</td>
<td>Ch. 3</td>
<td>What is Money?</td>
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<td>(M)</td>
<td>Ch. 4</td>
<td>Understanding Interest Rates</td>
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<tr>
<td>(M)</td>
<td>Ch. 7</td>
<td>The Stock Market, the Theory of Rational Expectations and the Efficient Markets Hypothesis</td>
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### II. BOND, COMMODITY AND FOREIGN EXCHANGE MARKETS

<table>
<thead>
<tr>
<th>(M)</th>
<th>Ch. 5</th>
<th>The Behavior of Interest Rates, pp. 85-101.</th>
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<tbody>
<tr>
<td>(C)</td>
<td>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).</td>
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<tr>
<td>(M)</td>
<td>Ch. 17</td>
<td>The Foreign Exchange Market</td>
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<tr>
<td>(M)</td>
<td>Ch. 18</td>
<td>International Financial System, pp. 427-441.</td>
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**Optional:**

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<tr>
<th>(M)</th>
<th>Ch. 6</th>
<th>The Risk and Term Structure of Interest Rates</th>
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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. 9  Banking and the Management of Financial Institutions, especially pp. 186-201.
(M) Ch. 10  Economic Analysis of Financial Regulation

Optional:

(M) Ch. 11  Banking Industry: Structure and Competition
V. FINANCIAL CRISSES

(M) Ch. 12 Financial Crises
(C) Web Chapter 1 Financial Crises in Emerging Market Economies.
Also found on the book’s website (W).
(C) Mishkin, F.S., "Asymmetric Information and Financial Crises: A Historical
(C) Mishkin, F.S., “Over the Cliff: From the Subprime to the Global Financial Crisis,”
pp. 49-126.

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
(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. 67-77

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


(M) Ch. 13 Central Banks and the Federal Reserve System
(M) Ch. 15 The Tools of Monetary Policy

Optional:

(M) Ch. 14 The Money Supply Process

VIII. CENTRAL BANK STRATEGY AND COMMUNICATION: THE INTERNATIONAL EXPERIENCE

(M) Ch. 16 The Conduct of Monetary Policy: Goals, Strategy and Tactics, pp. 371-387
(C) Mishkin, F.S., “Comfort Zones, Shmumfort Zones,” speech delivered to the Virginia
Association of Economists, Washington and Lee University, Lexington, Va., March 27, 2008.
(www.federalreserve.gov/newsevents/speech/mishkin20080327a.htm)

(www.federalreserve.gov/newsevents/speech/mishkin20080403a.htm).

(www.federalreserve.gov/newsevents/speech/mishkin20071129a.htm)


(C) Bernanke Ben S., “Monetary Policy Objectives and Tools in a Low-Inflation Environment,” speech delivered at the Revisiting Monetary Policy in a Low-Inflation Environment Conference, Federal Reserve Bank of Boston, Boston, Massachusetts, October 15, 2010,
www.federalreserve.gov/newsevents/speech/bernanke20101015a.htm

(C) Bernanke, Ben S., “The Effects of the Great Recession on Central Bank Doctrine and Practice,” speech given at 56th Economic Conference, Federal Reserve Bank of Boston, Boston, Massachusetts, October 18, 2011.
www.federalreserve.gov/newsevents/speech/bernanke20111018a.htm


Optional: