

# **1BP570**

# **Banking and Monetary Policy**

## **COURSE SYLLABUS**

Spring 2010

**INSTRUCTOR:**  
**PETAR STANKOV**

1. **Course Name:** 1BP570 Banking and Monetary Policy
2. **Day and Time:** 12-16 April, 2010, 9:15—13:30, room NB139
3. **Instructor:** Petar Stankov, M.A.  
 Email: [petar.stankov@gmail.com](mailto:petar.stankov@gmail.com); [petar.stankov@cerge-ei.cz](mailto:petar.stankov@cerge-ei.cz)  
 Course web-site: <http://home.cerge-ei.cz/pstankov/BMP-S10.htm>  
 Office hours: 30 minutes before and after each class, at the laptop area on the first floor of the VSE New Building or, best, by an appointment.
4. **Prerequisites:** Macroeconomics, Microeconomics, Basic Mathematics
5. **Credits:** 3
6. **Workload For An Average Student (daily, 5 days):**

Lecture	5 academic hours (5x45 min.)
Homework: reading at home	2 academic hours
Solving real-life problems and cases at home	1 academic hours

7. **Course Description:** This is an intensive course on banking, monetary policy and operations of monetary authorities. The course will focus on the structure and operations of banks and financial institutions; the tools, and the policies of central banks; and on their effects on money and inflation. The course will also extensively discuss the role of the central banks during the current Great Recession of 2008-2009, and the implications of the financial and economic crisis for government debt and interest rates in the economy.

#### 8. **Course Materials:**

8.1. **Textbook:** Mishkin, Frederic S. (2007). The Economics of Money, Banking, and Financial Markets, Eight Edition; earlier editions also fine

#### 8.2. **Additional readings:**

- Seccheti, Stephen G. (2006). Money, Banking and Financial Markets
- *The Economist* magazine: <http://www.economist.com>
- Revenda Z.: Peněžní ekonomie a bankovníctví, Praha 2003
- Brealey C., Myers J: Teorie a praxe firemních financí, Praha 2000

#### 9. **Learning Objectives**

By the end of this course, students will understand how banks operate and how do bank managers behave. In addition, based on the knowledge of commercial banking, students will also understand the basics of monetary policy, and its implications for the macroeconomy. Finally, students will have a firm grasp of the reasons central banks behaved in the way they did during the Great Recession, and what are the ways forward for the monetary policy in the next few years.

#### 10. **Teaching Methodology**

There will be three *complementary* ways to learn the basics of banking and monetary policy: attending the classes and participating, watching educational movies, and passing the exam. The more formal one will be the lectures and discussions during the lectures. Each class will proceed for about 45-50 minutes and will be followed by a 10-15-minute break approximately every 90 minutes. Any questions will be discussed with the teacher in class or immediately after the given lecture or immediately before the next one. Alternatively, if the students prefer, they

are encouraged to request clarifications by email. All email requests will be addressed by the lecturer either by email or, if deemed important for the class, will be discussed in the beginning of the next lecture. The students may kindly note that the number of requests for clarifications or the number of questions asked by a given student during a Q&A session will not be given a formal credit when the final grade is assigned. However, learning how to express thoughts in a clear way and asking relevant questions makes a better economist and therefore students are encouraged to ask questions, no matter how irrelevant or insignificant they may seem at a first glance. In addition, asking questions and contributing to the discussion will work towards students' participation. **Attendance and participation will form 10% of student's final grade.**

The less formal part of the teaching process will consist of educational movies that will be projected on several course topics during the course in the second part of the relevant lecture. The movies will last for about 30 minutes and will be followed by a discussion. The discussions will contribute to your participation assessment.

The **final exam will form 90% of the final grade, respectively.** All exam questions will be given from a material that has been either covered or solved during the lectures. The final exam will be comprehensive, that is, it will cover all the material from the course.

### 11. Topics Covered:

The course is structured in two main parts:

- Basic commercial banking, and bank management
- Central banking and monetary policy

### 12. Course Schedule: (Provisional - subject to some change)

Date	Topic covered	Notes	Reading
12 Apr.	Why study banking and monetary policy?	Lecture 1.1.	<a href="#">M-1: 3-17</a>
	Financial development and economic growth. Financial crises. Cases of financial crises in US	Lecture 1.2.	<a href="#">M-8: 187-191</a>
	Cases of financial crises in the rest of the world. A snapshot of the Global Economic Crisis of 2008-2009, and the role of monetary policy: a primer. <i>Educational movie: International financial crashes</i>	Lecture 1.3.	<a href="#">M-8: 194-199</a>
13 Apr.	Basics of banking. The bank balance sheet	Lecture 2.1.	<a href="#">M-9: 201-208</a>
	General principles of bank management	Lecture 2.2.	<a href="#">M-9: 208-215</a>
	Managing risk in banking	Lecture 2.3.	<a href="#">M-9: 217-226</a>
14 Apr.	Understanding banking as an industry	Lecture 3.1.	<a href="#">M-10: 229-236, 243-250</a>
	Structure of the central bank: FED and other central banks. The Czech National Bank.	Lecture 3.2.	<a href="#">M-14: 335-342, 349-354</a>
	The European Central Bank. The European Monetary Union. Advantages and disadvantages of the Euro <i>Educational movie 4: The FED and its powers</i>	Lecture 3.3.	<a href="#">C-16: 413-420</a>
15 Apr.	The tools of monetary policy	Lecture 4.1.	<a href="#">M-17: 393-406</a>

	Goals and conduct of monetary policy <i>Educational movie 5: The conduct of monetary policy</i>	Lecture 4.2.	<a href="#">M-18: 411-419</a>
	Transmission mechanisms of monetary policy	Lecture 4.3.	<a href="#">M-26: 603-625</a>
16 Apr.	What are foreign exchange rates?	Lecture 5.1.	<a href="#">M-19: 435-448</a>
	Explaining changes in exchange rates <i>Educational movie 6: Exchange rates</i>	Lecture 5.2.	<a href="#">M-19: 448-455</a>
	Monetary policy strategy. Exchange rate targeting and currency boards. Monetary targeting. Inflation targeting	Lecture 5.3.	<a href="#">M-21: 487-495</a> ; <a href="#">M-21: 496-512</a>
<b>Final Exam Date (to be determined on the first day of classes)</b>			

Legend: M-1: 3-17 means Mishkin, chapter 1, pp. 3 – 17; S-16: 413-420 means Cecchetti, chapter 16, pp. 413-420. All readings and lecture presentations to be found [online](http://home.cerge-ei.cz/pstankov/BMP-S10.htm) at <http://home.cerge-ei.cz/pstankov/BMP-S10.htm>.

### **13. Assessment Procedures:**

A&P	10%
Final Exam	90%

### **14. Academic Dishonesty (Cheating and Plagiarism)**

To minimize the risks of cheating, the exams will be open-book ones: that is, the students will be able to use any supporting materials they would like to answer the questions. Lecture notes, presentations, and any printed materials (cheat-sheets) are allowed. Mobile phones and laptops however will not be allowed during the exams to make sure the students solve the problems on their own. Before the exam, every student will agree to sign the following statement:

“Feel free to use any WRITTEN source of information, or a calculator, to back up your answers. Mobile phone and notebook usage is NOT allowed. Any contact (verbal or other) among students is considered cheating and will be punished: the students involved will be assigned zero points on this exam. If you have any question, please raise your hand, and ask the question aloud so that everyone has the chance to hear it. *I have also switched off my phone and notebook computer.* Please sign below to indicate that you understand the procedures and complied with them.”

Due to the specificity of the open-book exams, and the comfort they give to the students, the exams will be harder than most of the exams students are aware of. They will be harder in the sense that students will not be asked to repeat what they are supposed to know because this is not a class in how to train a good memory. Rather, exams will check the understanding of the concepts taught in class by asking the students to solve real-life applications of the concepts covered. More information on how to answer those real-life applications will be given during the discussion sessions the purpose of which is exactly to exercise those questions. Further, there will be a revision lecture dedicated to getting used to the open-book exam structure.

### **15. Attendance and missed exams**

In line with the European academic tradition, attendance is not strictly required. However, in line with the Anglo-American academic tradition, attendance is expected at each class by each student, will be taken at each lecture by the lecturer, and will contribute significantly towards or against your grade.

#### Missed exams

If a student misses the final exam, it may be retaken only once at a later date. No exams will be administered after the make-up date under any circumstances.

## 16. Other Class Policies (Please read carefully)

- 1) Mobile phones can be switched on but their sound **MUST** be off! Mobile phone usage is **NOT** allowed during the lecture. If you need to use your phone, please quietly leave the lecture hall.
- 2) Mobile phones are **NOT** calculators. You will definitely need a calculator on the exam, and your mobile phone will be switched off during the exam. Therefore, bring a calculator for the exam.
- 3) Laptops are allowed in class provided the student takes notes on them, and are not allowed otherwise.
- 4) All emails to the teacher regarding either a class question or a request for an appointment will have the subject: **“Banking and Monetary Policy: a question/request, etc.”** If you do not address the email in the above way, it risks being considered as spam (unwanted email message) by the email account.
- 5) All appointments will be arranged for on the premises of either VSE or CERGE-EI. All other consultations will be shortly before and after class, for not more than 30 minutes.
- 6) Ideally, all class lecture notes and presentations will be distributed **BEFORE** each lecture on the class web-site, so that students can print them and take notes on them. Therefore, students are responsible for checking the class-webpage at least once a week, and their emails more often.
- 7) **DURING EXAMS: Mobile phones and notebooks usage during exams is NOT allowed in any case, and they must be switched off.**

## 17. Grading:

<i>From</i>	<i>To</i>	GRADE (Czech tradition)	GRADE (US tradition) <sup>1</sup>
95	100	1	A
90	94		A-
87	89	2	B+
83	86		B
80	82		B-
75	79		C+
72	74	3	C
70	71		C-
65	69		D+
60	64		D
0	59	4	F

Good luck!  
P. Stankov

<sup>1</sup> The US grading tradition is presented here only for students' own reference – in case they would like to know what grade they would have achieved had they taken an identical course in an US educational institution. Students will be graded according to the Czech grading tradition established at VSE.