

Banking and Financial Institutions

THE COURSE SYLLABUS

Fall 2008

**INSTRUCTOR:
PETAR STANKOV**

1. **Course Name:** 1BP260 Banking and Financial Institutions
2. **Day and Time:** Thursdays, 11:00 – 12:30, Lecture hall A, New Building, VSE
3. **Instructor:** Petar Stankov, M.A.
Email: petar.stankov@gmail.com; petar.stankov@cerge-ei.cz
Course web-site: <http://home.cerge-ei.cz/pstankov/BFI-F08.htm>
Office hours: 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 (weekly):**

Lecture and Discussion sessions	90 minutes
Homework (reading at home and solving practical problems)	3 hours

7. **Course Description:** This is an introductory course on money, banking, and the financial markets and institutions. The course will focus on financial instruments and interest-rate determination; the structure and operations of banks and financial institutions; the operations, tools, and policies of central banks; and on money and inflation.

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 the primary participants in the money- and the financial markets, the operations and the goals of these participants, the various types of financial instruments and how they differ, the role of interest rates in the economy and how interest rates are determined. They will also know the basics of monetary policy.

10. **Teaching Methodology**

There will be two *complementary* ways to learn the basics of money, banking and financial markets and institutions: attending lectures, and doing practice exercises at home which will involve solving real-life problems. The more formal one will be the lectures and discussion sessions thereafter. Each lecture will proceed for

about 45-60 minutes and will be followed by a 30-45-minute discussion session. Any remaining questions will be discussed with the lecturer 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 any 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.

The less formal part of the teaching process will consist of occasional educational movies that would be shown on several course topics during the semester in the second part of the appropriate lecture, *if time allows for it*. The movies will last for about 30 minutes and will be followed by a short quiz that will *not* be graded. The quizzes have the purpose of making the students engage actively in listening to a given course topic. Although attendance will not form a part of the grade directly (apart from an attendance bonus explained below), taking the quizzes will definitely contribute to students' knowledge for the exams.

The midterm exam and the final exam will form 30% and 70% of the final grade, respectively. All exam questions will be given from a material that has been either covered during the lectures, or asked on a quiz, or exercised in a discussion session. The final exam will be comprehensive, that is, it will cover all the material from the course. The set-up of the final exam may however give more emphasis to the part of the course covered after the midterm exam.

11. **Topics Covered:**

The course is structured in four parts:

- Money, interest rates, and the money market
- Financial markets, financial crises and financial institutions
- Basic commercial banking
- Central banking and monetary policy

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

Date	Week	Topic covered	Notes	Reading
25.09	1.1.	Why study money, banking and financial markets?	Lecture 1.1	M-1: 3-17
	1.2.	An overview of the financial system and the financial instruments <i>Educational movie 1: Money and banking</i>	Lecture 1.2	M-2: 23-28, 34-37+app.
02.10	2.1.	What is money? Functions of Money. Measuring money. Money aggregates	Lecture 2.1	M-3: 44-48, 51-55
	2.2.	Understanding interest rates. Measuring interest rates. The distinction between real and nominal interest rates	Lecture 1.2	M-4: 61-69, 79-82

09.10	3.1.	The behavior of interest rates. Supply and demand for assets. Equilibrium interest rate	Lecture 3.1	M-5: 85-93
	3.2.	Changes in equilibrium interest rates <i>Educational movie 2: Financial markets and rates of return</i>	Lecture 3.2	M-5: 93-99
16.10	4.1.	Equilibrium on the money market	Lecture 4.1	M-5: 105-110
	4.2.	Money supply and changes in the interest rates	Lecture 4.2	M-5: 112-117
23.10	5.1.	Basics of banking. The bank balance sheet	Lecture 5.1	M-9: 201-208
	5.2.	General principles of bank management	Lecture 5.2	M-9: 208-215
30.10	6.1.	Managing risk in banking	Lecture 6.1	M-9: 217-226
	6.2.	Understanding banking as an industry	Lecture 6.2	M-10: 229-236, 243-250
6.11	7	Mid Term Exam		
13.11	8.1.	Financial development and economic growth. Financial crises. Cases of financial crises in US	Lecture 8.1	M-8: 187-191
	8.2.	Cases of financial crises in the rest of the world. International Financial institutions <i>Educational movie 3: International financial crashes</i>	Lecture 8.2	M-8: 194-199
20.11	9.1.	Structure of the central bank: FED and other central banks. The Czech National Bank.	Lecture 9.1	M-14: 335-342, 349-354
	9.2.	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 9.2	S-16: 413-420
27.11	10.1.	The tools of monetary policy	Lecture 10.1	M-17: 393-406
	10.2.	Goals and conduct of monetary policy <i>Educational movie 5: The conduct of monetary policy</i>	Lecture 10.2	M-18: 411-419
4.12	11.1.	Transmission mechanisms of monetary policy	Lecture 11.1	M-26: 603-625
	11.2.	What are foreign exchange rates?	Lecture 11.2	M-19: 435-448
11.12	12.1.	Explaining changes in exchange rates <i>Educational movie 6: Exchange rates</i>	Lecture 12.1	M-19: 448-455
	12.2.	Monetary policy strategy. Exchange rate targeting and currency boards	Lecture 12.2	M-21: 487-495
18.12	13.1.	Monetary targeting. Inflation targeting	Lecture 13.1	M-21: 496-512
	13.2.	Money and inflation <i>Educational movie 7: Inflation</i>	Lecture 13.2	M-27: 632-650
08.01.2009 15.01.2009 22.01.2009	Final Exam Dates (No exams will be administered after the third date!)			

Legend: M-1: 3-17 means Mishkin, chapter 1, pp. 3 – 17; S-16: 413-420 means Seccheti, chapter 16, pp. 413-420. All readings and lecture presentations to be found online at <http://home.cerge-ei.cz/pstankov/BFI-F08.htm>.

13. Assessment Procedures:

Midterm Exam	30%
Final Exam	70%

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. Please sign below to indicate that you understand the procedures.”

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 lecture by each student, and will be taken at each lecture by the lecturer. The lecturer may decide to check for attendance at any point during the lecture. Attendance bonuses of at most 5 total points **will** be assigned for marginal cases between grades (including passing and failing), provided the student attended **all** the scheduled lectures. This means that if a student has 73 points total at the end of the semester, and attended **all** the lectures, s/he will be assigned a final grade of 78 points which may significantly improve the final grade.

Missed exams

If a student misses any of the two exams, it may NOT be retaken. The only exception will be made for those students who present a sufficient proof of their inability to attend the exam. The only sufficient proof will be considered a medical examination report presented no later than 2 days after the exam has taken place into the lecturer's mailbox. Provided the student has presented the medical

examination report within the allotted time, the exam will be repeated for the student at the next lecture slot. However, the exam questions will be different. If a student fails to submit a medical report within the 2-day limit, he or she will be assigned zero points for the exam.

16. Other Class Policies

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 Financial Institutions: a question/request, etc." If you do not address the email in the above way, it risks being considered as spam (unwanted email message). 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 at the laptop area of VSE, for not more than 30 minutes.

5) 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.

6) Additional class policies may be distributed via email. Therefore, check your emails regularly too.

17. Grading:

<i>From</i>	<i>To</i>	GRADE (Czech tradition)	GRADE (US tradition)
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
50	59	4+	F
0	49	4	F

Good luck!
P. Stankov