

## Econ 353: Financial Institutions

Fall 2015

MW 11:45am – 1:00pm, BioSci 130

Instructor: Mary Beth Fisher

Office hours: T TH 1:30 – 3:00pm, or by appointment.

### Course synopsis

This course examines the structure and functions of various financial institutions, including: commercial banks, non-bank financial institutions including asset managers and hedge funds, global banks and regulatory agencies (e.g. the IMF, the World Bank and the BIS), central banks, the U.S. Treasury and other government agencies (e.g. Fannie Mae and Freddie Mac). The focus will be on how these institutions impact financial markets, transform financial assets to move money between borrowers and lenders, the transmission mechanisms for monetary policy, and the consequences for interest rates, asset prices, asset securitization and the global economy. Analysis of inflation targeting by global central banks and the impact of quantitative easing on interest rates and currency markets will be discussed.

The material will draw heavily from case studies of recent financial market events, government legislation and central bank responses, and the subsequent evolution of financial markets and institutions. There will also be a significant focus on the legal structure of bond contracts, bankruptcy regimes, and evolving US and EU financial regulation.

### Textbooks and other course materials

Money, Banking and Financial Markets, by Laurence Ball. Worth Publishers; Second Edition (February 25, 2011).

Keeping up with reading in the *Wall Street Journal* is highly recommended.

There will be selected readings in:

*The Federal Reserve System: Purposes & Functions*, available for free download [here](#).

A History of Money from Ancient Times to the Present Day, by Glyn Davies. Available for free download [here](#).

*Review of the Method of the Valuation of the SDR – Initial Considerations*, IMF staff report, available [here](#).

The Battle of Bretton Woods, by Benn Steil.

Other reading materials will be provided as assigned.

### Exams, assignments and grading

There will be one individual assignment, one mid-term exam, one final exam, and occasional pop quizzes in class to make sure everyone is keeping up with the reading and understanding what is being discussed in class.

Final exam 35%; mid-term exam 25%; individual assignment 20%; pop quizzes and class participation 20%.

No make-up exams will be given, or late assignments accepted, without a note from your academic dean explaining your absence and requiring the make-up.

### **Errata**

This class is designed to be interactive and heavily discussion based. Class participation is 20% of your final grade. You have 3 free absences. After that, missing class will begin to substantially erode that factor.

There is no provision for make-up pop quizzes.

All cell phones should be off and put away during class.

### **Course Outline**

Part I: Overview of money and banking – Chapters 1-2, Ball

Part II: Financial markets and foreign exchange – Chapters 3-6, Ball

- Asset prices and securities markets
- Interest rates
- Foreign exchange
- Reserve currencies, the IMF and the rise of yuan
- The financial system and economic growth

Part III: Banking and bank regulation – Chapters 7-10, Ball

- Banks and the evolution of finance
- Hedge funds, asset managers and shadow banking
- Central banks and regulatory agencies
- Government agencies and the politics of housing finance
- The subprime crisis, Bear Stearns and Lehman Brothers

### **Mid-term Exam**

Part IV: Central banks and economic policy – Chapters 11-14, 16-17 Ball

- Revisiting money supply, interest rates and economic growth
- Monetary policy and the FOMC
- The European Monetary Union and the euro
- Inflation and deflation
- Quantitative easing – the Fed, the ECB and the Bank of Japan

Part V: Legal issues in financial reform and bailouts – Chapter 18, Ball

- Argentina, Greece and issues of sovereign default
- BNP Paribas runs afoul of US trade sanctions
- Fannie Mae and Freddie Mac stockholders fight the Treasury

## Final exam

# Duke University's Academic Honor Code

## The Duke Community Standard and Definitions

### I. The Duke Community Standard

Duke University is a community of scholars and learners, committed to the principles of honesty, trustworthiness, fairness, and respect for others. Students share with faculty and staff the responsibility for promoting a climate of integrity. As citizens of this community, students are expected to adhere to these fundamental values at all times, in both their academic and non-academic endeavors.

#### The Pledge

Students affirm their commitment to uphold the values of the Duke University community by signing a pledge that states:

1. I will not lie, cheat, or steal in my academic endeavors, nor will I accept the actions of those who do.
2. I will conduct myself responsibly and honorably in all my activities as a Duke student.

#### The Reaffirmation

Upon completion of each academic assignment, students will be expected to reaffirm the above commitment by signing this statement: "I have adhered to the Duke Community Standard in completing this assignment." [Student Signature]

### II. Definitions

Lying is the expression of a material untruth made with the intent to mislead another or with reckless disregard for the truth of the matter asserted. The material untruth may be uttered or presented, verbally, electronically, or in writing, to another member of the University community (student, faculty or staff). An untruth is material when it relates to or affects in a significant way activities of legitimate concern to the University community.

Cheating is the act of wrongfully using or attempting to use unauthorized materials, information, study aids, or the ideas or work of another in order to gain an unfair advantage. It includes, but is not limited to:

- plagiarism;
- giving unauthorized aid to another student or receiving unauthorized aid from another person on tests, quizzes, assignments or examinations;
- using or consulting unauthorized materials or using unauthorized equipment or devices on tests, quizzes, assignments or examinations;
- using any material portion of a paper or project to fulfill the requirements of more than one course unless the student has received prior permission to do so;
- intentionally commencing work or failing to terminate work on any examination, test, quiz or assignment according to the time constraints imposed; or
- failing to adhere to an instructor's specific directions with respect to the terms of academic integrity or academic honesty.

"Plagiarism" occurs when a student, with intent to deceive or with reckless disregard for proper scholarly procedures, presents any information, ideas or phrasing of another as if they were his or her own and does not give appropriate credit to the original source. Proper scholarly procedures require that all quoted material be identified by quotation marks or indentation on the page, and the source of information and ideas, if from another, must be identified and be attributed to that source. Students are responsible for learning proper scholarly procedure.

The term "assignment" includes any work, required or volunteered, and submitted to a faculty member for review and/or academic credit.

All academic work undertaken by a student must be completed independently unless the faculty member or other responsible authority expressly authorizes collaboration with another.

Stealing is the intentional taking or appropriating of the academic work product of another without consent or permission and with the intent to keep or use the academic work product without the owner's or the rightful possessor's permission.

Responsible and Honorable Conduct means adhering to state and federal laws, residential and academic regulations, and the policies of Duke University as explicated in the Bulletin of Information and Regulations of Duke University.

**III. Students' Obligation to Report Potential Cases of Academic Dishonesty.** Under the Duke Community Standard, students affirm their commitment not to lie, cheat, or steal in academic endeavors, *nor accept the actions of those who do*.

Therefore, upon learning of or witnessing a potential case of academic dishonesty, students are required to provide immediately:

- a signed written statement of the observed behavior to the appropriate faculty member and/or to the Associate Dean for Judicial Affairs (Dean K.C. Wallace, Box 90946, 668-3853); and
- the name or description of the person(s) alleged to have committed the violation.

Students who knowingly do not fulfill this obligation are themselves subject to sanctions.

The following comments are courtesy of Professor Connel Fullenkamp, Director of Undergraduate Studies in the Economics Department. I fully endorse and follow this policy.

**Any kind of academic dishonesty is a Code violation**, including witnessing a Code violation and not reporting it. The most serious type of academic dishonesty is handing in someone else's work and claiming that it is your own. This includes, in the context of essay writing, plagiarism. It also includes collaborating, *even with a student who is not in this course or section*, on any graded work that is supposed to be done independently. All quizzes and exams are to be done independently, as well as all paper writing. I may allow collaboration on other exercises, and if so, I will explicitly state the type and extent that I will allow. If I do not specify, you are to assume that you must work independently.

Yet another type of academic dishonesty is using work that is not original--that is, recycling your own or other students' work from other courses or sections of this course to be handed in to meet the requirements of this course, or using one piece of work to satisfy the requirements in two different courses simultaneously. In the latter case, I may allow this **if** you clear this with me ahead of time.

I believe that you are honest. Nevertheless, if I see evidence of any academic dishonesty, I will confront it according to the procedures described in the Bulletin of Duke University.