Course Content:

This course is designed to help students understand the connections between money (the Federal Reserve), financial markets, and the macroeconomy. How are interest rates determined, and how does the Federal Reserve conduct monetary policy? How do Federal Reserve actions impact the US as well as other economies? What economic factors drive the yield curves in different bond markets? We will pay particular attention to the banking system, with an eye toward understanding the function, valuation, and regulation of banks. We touch on a number of topics including the role of the Federal Reserve as a lender of last resort during financial crises, unconventional monetary policy tools such as quantitative easing and forward guidance, cryptocurrency, and emerging market financial crises. We will often begin class with a discussion of current macro-financial market events in the context of our course coverage. The course is appropriate for anyone trying to gain a macroeconomic perspective on capital markets, from investors to bankers, or those simply interested in the linkages between interest rates, banks and the economy.

Grading:

Grades will be determined by 2 cases and 3 homeworks, class participation, 3 online quizzes, and an online final exam. The cases and homeworks count towards 30% of your grade. These assignments are graded on check, check-, check+ scale. I will allow you to drop one of the cases or homeworks (or will drop the lowest grade) in the grade computation. The cases and homework assignments can be done in groups of 4 or less. The subject matter on these cases and homeworks typically run ahead of material covered in class. My philosophy is that the assignments force you to think through material before you come to class, and aid the in-class learning. Thus my expectation when grading is to see that you make a strong effort on these assignments, not that you get everything right. Please submit homeworks and cases online prior to the start of the class.

Class participation will count for 20% of your grade. Absence from class will affect your grade. I understand that you may have to miss a class over the course of the quarter, so you are allowed two free passes. Let me know in advance if you will be missing a class, or if you will be arriving to class late.

The quizzes are online, and will be short, taking 30 mins at the most. I will allow you to drop one of the quizzes (or will drop the lowest grade) in the grade computation. The quizzes will count towards 20% of your grade.

There is an online final exam, which is cumulative, and will count towards 30% of your grade.
**Reading Materials:**

There is a small booklet that contains 5 chapters from two textbooks, which must also be purchased. If you would like a full textbook, my recommendations are Mishkin’s *Money, Banking and Financial Markets*, or Hubbard-O’Brien’s *Money, Banking, and the Financial System*.

The syllabus also has links to readings on the web, which I have not included in the case-packet.

Additionally, I have slides covering each of the lectures that are posted on Canvas. I work on the slides on a just-in-time basis, so please download them only the day before class.

This is a finance elective course which goes best if the class is engaged in following current economic developments. I require that everyone get an online subscription to the *Financial Times* (it’s free as a Stanford student). I will often send you links to FT articles. I would also like you to send me links to articles you find interesting. I have no fixed material for the syllabus and I am happy to take the material in a direction depending on your interests and what is happening in the world.

Finally, if you want suggestions for additional readings let me know. There are many accessible books on these topics.
Class 1: Interest Rates and Expectations Hypothesis

A. Term Structure of Interest Rates
B. The Expectations Hypothesis

Readings:

1. The Risk and Term Structure of Interest Rates, from Textbook.
2. Lecture notes, Chapter 1

Assignment: Do online quiz 1

Class 2: Long-term Interest Rates and Inflation Expectations

A. Treasury Inflation Protected Securities
B. Real Interest Rates

Readings:

1. On TIPS: https://www.pimco.com/resources/education/understanding-treasury-inflation-protected-securities

Optional readings:

2. TIPS and Inflation swap pricing issues (technical, and I wont discuss in class):

Class 3: Interest Rates and Loanable Funds

A. The Behavior of Interest Rates: Loanable Funds Framework

Readings:

1. Determining Interest Rates, from Textbook
2. Lecture notes, Chapter 2

Class 4: Interest Rates Homework

A. Review of Homework 1

Homework 1 due

Readings:

1. Savings Glut Speech by Bernanke:
Class 5: Fed Funds Market

A. Reserve Requirements and Reserve Management
B. Determination of the Fed Funds Rate

Readings:
1. Money Supply Process, from Textbook
3. Lecture notes, Chapter 3

Optional readings:

Class 6: Fed Funds Market

A. Review of Homework
B. The Discount Window
C. Open Market Operations

Readings:
1. Tools of Monetary Policy, from Textbook
2. Lecture notes, Chapter 3

Class 7: Fed Balance Sheet

A. Fed Balance Sheet

Assignment: Do online quiz 2

Class 8: Cryptocurrency

A. Current payment system and inefficiencies
B. Cryptocurrency as medium of exchange
C. Blockchain ledger

Readings: To be distributed

Class 9: Transmission

A. Monetary Transmission Mechanism
B. Inflation

Readings:
1. The Transmission Mechanisms of Monetary Policy, from Textbook. The first part of the chapter describes some methodological issues in evaluating the effects of monetary policy, as well as the historical debates of Milton Friedman and others. Skim that part. The part I want you to read carefully begins “The Transmission Mechanisms of Monetary Policy.”

2. Lecture notes, Chapter 4

Optional Readings:

Class 10: Case Discussion

A. Discussion of Case on the “The Big News”

Prepare and hand in write-up for Big News case.

Class 11: Lending Channel and International Spillovers

A. Lending Channel  
B. Emerging Market Spillovers

Readings:

1. See Class 9 Readings

Class 12: Fed Objectives

A. Objectives of the Fed

Readings:

1. Lecture notes, Chapter 4  

Optional Readings:

2. Narayana Kocherlakota (former Fed governor) on the institutional design of the Fed
Class 13: Case Discussion

A. Discussion of Case on Monetary Policy

Prepare and hand in write-up for Monetary Policy case.

Readings:
   1. The Credit Crunch, by Ben Bernanke and Cara Lown:  

Class 14: Banking

A. Bank Balance Sheets
B. Banking and Financial Crises

Readings:
   1. Lecture notes, Chapter 5
   2. Bank Annual Reports (TBA)

Assignment: Do online quiz 3

Optional readings:
   1. Banks and Liquidity Creation  

Class 15: History of Financial Crises

A. Bank Runs and Monetary Contraction: The Great Depression
C. Conflict of Interest: Moral Hazard and the S&L Crisis
D. Capital Adequacy Requirements

Readings:
   1. Financial Crises, from Textbook
   2. Charles Calomiris and Gary Gorton, “The origins of banking panics.” Full text available at:  
      http://www.nber.org/chapters/c11484.pdf

Optional readings:
   1. The Most Dangerous Idea in Federal Reserve History: Monetary Policy Doesn’t Matter,  
      by Christina Romer and David Romer
Class 16: Banking Business Model

A. Guest Lecture

Readings: To be distributed

Class 17: Emerging Market Banking

A. Background on Banks in India
B. Banking business model in an EM

Readings: To be distributed

Class 18: Capital Requirements Debate

Readings: To be distributed

Class 19: Wrap-up

A. Discussion of current state of the economy and financial markets