

Objectives

This course provides an overview of the U.S. financial system. We consider the decision problems faced by investors, financial intermediaries and the central bank and see how these players interact to determine interest rates and other asset prices as well as the allocation of funds. We will further explore the role of money and monetary policy in the macroeconomy. The course material is relevant for (i) personal financial decisions, such as saving for retirement, (ii) financial decisions by businesses and government, (iii) a host of current public policy issues, in particular preventing and dealing with financial crises.

Lectures

Lectures take place Tuesdays and Thursdays from 2-3:15pm for section 03535 and from 3:30-4:45pm for section 03540.

Course Website

The course has a site on UT's new Canvas system (replacing Blackboard, <http://canvas.utexas.edu/>). I will use Canvas to post assignments and other course materials, and for announcements. Canvas has a discussion board which I am planning to use to answer questions that are of general interest to all class members (e.g. questions about a homework problem).

Contact Information

The TAs for the course are Qifei Zhu (qifei.zhu@phd.mcombs.utexas.edu) for section 03535 and Xiang (Nicole) Liu (xiang.liu@phd.mcombs.utexas.edu) for section 03540. Qifei and Xiang will hold office hours at times and locations TBA. I will be holding office hours on Mondays from 10:30am-noon and Wednesdays from 1:30-3:00pm in my office (CBA 6.276). Outside of these hours, the best way to contact me is via email (tim.landvoigt@mcombs.utexas.edu).

If you have a question about the course material, I encourage you to use Canvas to contact me.

Textbook

The required textbook for the class is "Financial Markets & Institutions", by Frederic S. Mishkin and Stanley G. Eakins (seventh edition). The previous edition of the book will work for some of the material. However, the newest edition contains important updates and we will spend a fair amount of time on this new post-crisis material. For each topic we cover, I will point to the chapter of the book that the topic is based on.

Other Class Materials

Additional required materials are available in a course packet at UT copy services. The packet contains the four cases we will cover, and two chapters from the textbook "Macroeconomics", by Andrew Abel and Ben Bernanke. In the part of the class on monetary policy during the crisis, we will draw on the online textbook "Short-run Fluctuations" by David Romer, available for download from his website at '[http://elsa.berkeley.edu/~dromer/papers/ISMP Text Graphs 2013.pdf](http://elsa.berkeley.edu/~dromer/papers/ISMP_Text_Graphs_2013.pdf)'.

I will further maintain a list of additional optional online reading materials on the course website.

These will be news articles that are relevant to the class, or useful background reading from finance and economics journals. I will continually update the reading list as we go along.

Further, before each class, I will make my lecture slides available on the course website.

You will need a scientific calculator for the course capable of doing powers (e.g. 1.04^{10}) and logarithms. If you have a calculator with financial functions such as IRR, PV, FV, etc., please feel free to use it for homework and during exams, however such a calculator is not required. So that it can be used during exams, your calculator cannot be on your phone. Some homework assignments will require you to use Microsoft Excel or OpenOffice Calc (freely available).

Assignments

There will be regular homework assignments in this class. I am planning on covering four HBS-style cases (available in the course packet) and nine problem sets. Cases will require you to turn in “essay” answers to analytical questions that I provide with each case. We will then discuss the cases in class. The problem sets will mostly consist of short numerical problems and some Excel-based exercises. For the homework assignments, you will have to form groups of 2-5 students. You do not need to stay with the same group for the duration of the course. However, in order to receive credit, your name needs to appear on at least one solution for each assignment.

Assignments will be posted on the course website, and the due date of each assignment will be clearly indicated on the assignment. You can turn in completed assignments in class any time before the due date, or leave them in the mailbox of your section’s TA up until the due date. Late assignments will receive a zero score.

Exams and Grades

In addition to the homework assignments, your course grade will be based on three in-class exams. The exams will consist of numerical problems similar to those on the problem sets. The dates of the exams are

1. Thursday, October 3,
2. Thursday, October 31, and
3. Thursday, December 5,

and they will be held during the regular class times on those days.

The composition of the grade will be as follows: homework assignments will count for 40% of the total course grade, and exams will count for 60%. Each case will count for 5% of the grade; therefore, the problem sets will jointly count for 20% of the grade with roughly equal weight depending on the length of the problem set. The three exams will receive equal weight of 20% each.

There will be no make-up exams during the semester. If you have to miss an exam due to a medical or family emergency (*verified* by UT Student Emergency Services), you will get the chance to take a make-up exam during final exam week. This final make-up exam will be based on material of the whole class, independent of which in-class exam (1, 2 or 3) you missed. Further, in the unlikely and unfortunate event that you have to miss multiple in-class exams, the final make-up exam will count for the total portion of the grade of all exams you missed.

If you miss an exam without a reason that has been verified by UT Student Emergency Services, you will receive a score of zero on that exam.

Contents

(MEx means this topic is covered in chapter x of Mishkin/Eakins, ABx stands for chapter x in Abel/Bernanke in the course packet, and R-x stands for section x in Romer's online textbook)

Overview

1. What types of securities and intermediaries exist in the U.S. today? (ME1)
2. What are the functions of markets vs. intermediaries? (ME2)
3. What is money?

Part 1: Investing

1. Discounting (ME3)
2. Interest rates and rates of return (ME3)
3. Risk, return, and portfolio choice

Part 2: Capital Markets

1. Bond Markets
 - * The determination of interest rates (ME4)
 - * The risk and term structure of interest rates (ME5)
2. Stock Market
 - * What drives the movement of stock prices over time? (ME13)
 - * Is the stock market efficient? (ME6)
3. Introduction to derivatives markets
 - * Forwards, futures, and options (ME24)
 - * Why are they useful? (ME24)

Part 3: Money and Monetary Policy

1. The Federal Reserve and the money supply process (ME10A)
2. Money in the macroeconomy
 - * IS-LM/AS-AD framework (AB9)
 - * Long-run neutrality vs. short-run non-neutrality (AB9)
 - * Monetary policy in the open economy (AB13)
3. Objectives and tools of monetary policy
 - * Rule-based monetary policy (R-III)
 - * Channels of monetary policy transmission (ME10)
 - * Challenges and limits: monetary policy during the financial crisis (R-IV, R-V)

Part 4: Financial Intermediaries

1. The role of intermediaries (banks)
 - * Intermediaries as monitors (ME7)
 - * Intermediaries as providers of liquidity (ME7)
2. Bank management and regulation
 - * Bank balance sheets and risk-based capital requirements (ME17, ME18)
 - * Hedging using derivatives (ME24)
3. Housing finance and the recent financial crisis
 - * Mortgages and securitization (ME14)
 - * Structured finance, shadow banking, and systemic risk (ME8)

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence. For in-class exams missed because of a religious holy day, the same rules apply as to exams missed because of a medical or family emergency stated above.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Programs Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.