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 in UTC 1.144 from 2-3:15pm for section 03780 and from 3:30-4:45pm for section 03785.

Course Website

The course has a site on UT’s Canvas system (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.mccombs.utexas.edu) and Xiang (Nicole) Liu (xiang.liu@phd.mccombs.utexas.edu). 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@mccombs.utexas.edu) or Canvas.

Textbook

The required textbook for the class is “The Economics of Money, Banking, and Financial Markets”, by Frederic S. Mishkin (third edition). For each topic we cover, I will point to the chapter of the book that the topic is based on.

Other Class Materials

In the part of the class on monetary policy, we will draw on the online textbook “Short-run Fluctuations” by David Romer (UC Berkeley), available for download from his website. I will also post a version of this chapter on Canvas.

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 in the shape of 8 problem sets. 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 designated box in the front office of the Finance Department (6th
floor of CBA). Late assignments will receive a zero score.

Exams and Grades
In addition to the homework assignments, your course grade will be based on two in-class exams
(midterms) and a final exam. The two midterms will be on the following dates

1. Thursday, October 2,
2. Tuesday, November 4

and they will be held during the regular class times on those days. The final exam will be during
exam week. I will try to arrange one exam time for both sections.

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%.

The final exam is mandatory, but the midterms are optional exams. At the end of the course, I will
only use your best midterm score. If this score is higher than your final exam score, it will count
1/2 of your total exam score. If it is worse than your final exam score, I will drop it.

Since the midterms are optional, there will be no make-up exams if you miss them for any reason.
The midterm exams will be closed-book exams limited to the material covered in the first and
second third of the class, respectively.

The final exam is comprehensive and is based on all material covered in the class. The exam is
closed-book but students may bring a double-sided letter-sized “cheat sheet”.

The final course grade will be “curved” in accordance with the suggested BBA grading guidelines
for electives. This means a target GPA average between 3.4-3.6.

\[ S = 0.4H + 0.6 \max \left\{ \frac{\max\{M_1, M_2\}}{2} + X, X \right\}. \]

Let the two midterm scores be \( M_1 \) and \( M_2 \), the final exam score be \( X \), and the average homework score be \( H \).

Then your total score for the course will be
Contents
(M-x means this topic is covered in chapter x of Mishkin, and R-x stands for section x in Romer’s online textbook chapter)

Overview

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

Part 1: Investing and Financial Markets

1. Interest rates and the bond market (ME-4, ME-5)
2. The term structure of interest rates (ME-6)
3. The stock market and investor expectations (ME-7)
4. Risk, return, and portfolio choice

Part 2: Money and Monetary Policy

1. The Federal Reserve and the money supply process (M-16, M-17)
2. Tools and objectives of monetary policy (M-18, M-19)
3. Monetary policy and the Macroeconomy
   * The short run: IS/MP model (R-I, R-II)
   * The long run: AD/AS model (R-III, M-23)
   * Challenges and limits: monetary policy during the financial crisis (R-IV, M-24)

Part 3: Financial Intermediaries

1. Banks as intermediaries and monitors (M-8, M-9)
   * Adverse selection and debt contracts
   * Moral hazard and monitoring
2. Bank management and regulation
   * Bank balance sheets and risk-based capital requirements (ME-10, ME-11)
   * Hedging using derivatives (M-14)
3. Housing finance and the recent financial crisis (M-9)
**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.mccombs.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.