Unit Outline*

ECON3350
The Economics of Money, Banking and Financial Markets

Semester 2, 2011
Campus: Crawley

Unit Coordinator
Winthrop Professor Rod Tyers

Business School
www.business.uwa.edu.au

* This Unit Outline should be read in conjunction with the Business School Unit Outline Supplement available on the Current Students web site http://www.business.uwa.edu.au/students
UNIT DESCRIPTION

Introduction
This unit provides an introduction to the economics of financial market behaviour and the role of financial markets in macroeconomic performance. The unit is taught at the advanced undergraduate level (third year). It is nonetheless suitable for students without prior knowledge of finance, including students in economics, commerce, arts and science. Importantly, however, participants will require intermediate macroeconomics and some prior training in basic mathematics, including algebra, graphical representations of simple functions, differential calculus and basic probability theory, at least to the levels covered in Quantitative Methods for Business and Economics (Econ 1111).

Unit content
Topics to be covered include an overview of financial market structure and behaviour, risk and the pricing of financial instruments, financial market efficiency (the efficient markets hypothesis) and the macroeconomics of financial shocks, including central bank responses via monetary policy as well as fiscal policy and financial market regulation. Applications will include the evolution of the 1997-8 Asian financial crisis and the 2008-9 international financial crisis, and some analysis of the economic policies applied in their aftermaths.

The goal of the unit
The encourage participants to explore the behavioural links between financial markets, economic policy and economic performance as a complement to careers in business, finance, government or international institutions.

Learning outcomes
On completion of this unit, students should be able to:

- Understand the structure of modern financial markets and their regulation, including the behaviour of the markets for some financial instruments;
- Be able to understand the genesis of the Asian financial crisis of 1997 and the international financial crisis of 2008 and the consequences of the policy responses which followed;
- Analyse the effects of financial shocks on economic behaviour and assess the implications of responses in the form of both monetary and fiscal policy;
- Carry out elemental analysis of a more general range of financial and real shocks and their effects on financial and economic performance.
TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning strategies
There are two 45-minute lectures per week. Though the lectures are recorded and hence the lecture materials are available via Lectopia, it is essential that all students attend the lectures. This is because these not only represent the easiest hour committed to learning the material of this course but also they indicate how students should prioritise across their learning activities. Each student is also required to attend a weekly tutorial which lasts for 45 minutes and is conducted in a small class with a maximum of 18 students. During the tutorial time, students have the opportunity to be engaged in small group learning such as discussion with other students and exchange with the tutor. A set of questions will be given to the students on Fridays, for discussion during the subsequent week. At random intervals students will be expected to write an answer to one of these questions during the tutorial period. Students are therefore encouraged to go through the questions ahead of the tutorial.

Teaching and learning evaluation
You may be asked to complete two evaluations during this unit. The Student Perception of Teaching (SPOT) and the Students’ Unit Reflective Feedback (SURF). The SPOT is optional and is an evaluation of the lecturer and the unit. The SURF is completed online and is a university wide survey and deals only with the unit. You will receive an email from the SURF office inviting you to complete the SURF when it is activated. We encourage you to complete the forms as your feedback is extremely important and can be used to make changes to the unit or lecturing style when appropriate.

Attendance
Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process. It is therefore important that you attend classes. More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminars and tutorials’.
CONTACT DETAILS

We strongly advise students to regularly access their student email accounts. Important information regarding the unit is often communicated by email and will not be automatically forwarded to private email addresses.

<table>
<thead>
<tr>
<th>Unit coordinator/lecturer</th>
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<tbody>
<tr>
<td><strong>Name:</strong> Rod Tyers</td>
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<tr>
<td><strong>Email:</strong> <a href="mailto:rod.tyers@uwa.edu.au">rod.tyers@uwa.edu.au</a></td>
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<tr>
<td><strong>Phone:</strong> 6488 5632</td>
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<tr>
<td><strong>Consultation hours:</strong> After lectures</td>
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<tr>
<td><strong>Lecture times:</strong> Please check: <a href="http://www.timetable.uwa.edu.au">http://www.timetable.uwa.edu.au</a></td>
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<td><strong>Lecture venue:</strong> Please check: <a href="http://www.timetable.uwa.edu.au">http://www.timetable.uwa.edu.au</a></td>
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<tr>
<td><strong>Tutorial times:</strong> <a href="http://www.olcr.uwa.edu.au/">http://www.olcr.uwa.edu.au/</a></td>
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<td><strong>Tutorial venue:</strong> <a href="http://www.olcr.uwa.edu.au/">http://www.olcr.uwa.edu.au/</a></td>
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TEXTBOOK(S) AND RESOURCES

Unit website

WebCT some lecture notes, Lectopia recordings and handouts, etc. will be available from WebCT. You can access your WebCT from http://www.webct.uwa.edu.au.

Recommended text and resource materials


Students may read relevant sections of these books to help understand the weekly lectures.

Lecture slides and other course materials will be posted and lectures will be recorded and available via Lectopia.

Approved calculators for examinations

During examinations participants will require calculators with a y^x key. The University only permits the use of calculators in examinations when the calculator has an approved sticker. If the student does not have an approved sticker on their calculator, they will not be permitted to use the calculator. Since this is a University wide policy it is not possible for unit coordinators to grant on the spot exemptions. Calculators can be approved at the Business School Undergraduate Student Centre or Postgraduate Student Centre. Further information is available on the Business School website, see http://www.business.uwa.edu.au/studentnet/assessments.
UNIT STRUCTURE

Overview

The core material for this unit will be provided in the form of Power-point lecture notes. Many topics are also covered in Mishkin which also provides useful background reading and more general overviews on each. Access to Bodie et al. will be required for technical details concerning risk and financial instruments. Substantial deviations from text content will occur nonetheless, so it is essential to attend lectures and to maintain a complete set of personal lecture notes. The weekly topics to be covered are listed below. The proposed schedule is approximate and full coverage of all topics cannot be guaranteed.

UNIT SCHEDULE

<table>
<thead>
<tr>
<th>Week #</th>
<th>Topic</th>
<th>Reading Instruction</th>
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<tbody>
<tr>
<td>1</td>
<td><strong>Financial instruments and interest rates</strong>&lt;br&gt;Financial assets, their yields and interest rates&lt;br&gt;Risk, transaction costs and the term structure of interest rates&lt;br&gt;Derivatives</td>
<td>(Mishkin Ch 4-5, Bodie et al. Ch 2)&lt;br&gt;(Mishkin Ch 6, Bodie et al. Ch 14-15)&lt;br&gt;(Web notes, Bodie et al. Ch 20)</td>
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<td>2</td>
<td><strong>Inter-temporal choice and the real interest rate</strong>&lt;br&gt;Consumption choice and saving supply</td>
<td>(Web notes)</td>
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<tr>
<td>3</td>
<td><strong>Investment demand and the real interest rate</strong>&lt;br&gt;Elemental theory of investment</td>
<td>(Web notes)</td>
</tr>
<tr>
<td>4</td>
<td><strong>The global financial capital market</strong>&lt;br&gt;The determination of interest rates globally</td>
<td>(Web notes)</td>
</tr>
<tr>
<td>5</td>
<td><strong>Risk preferences and mean-variance analysis</strong>&lt;br&gt;Concave utility and risk aversion</td>
<td>(Web notes, Bodie et al. Ch 6)</td>
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<td>6</td>
<td><strong>Portfolio theory and elementary pricing of financial assets</strong>&lt;br&gt;The CAPM&lt;br&gt;Pricing derivatives</td>
<td>(Bodie et al. Ch 8-9)&lt;br&gt;(Web notes, Bodie et al. Ch 20)</td>
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<td>7</td>
<td><strong>Market efficiency</strong>&lt;br&gt;The stock market&lt;br&gt;The theory of rational expectations&lt;br&gt;The efficient market hypothesis</td>
<td>(Web notes, Mishkin Ch 7, Bodie et al. Ch 12)</td>
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<td>8</td>
<td><strong>Money and money demand</strong>&lt;br&gt;Transaction demand&lt;br&gt;Portfolio demand</td>
<td>(Web notes, Mishkin Ch 3,19)</td>
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<td>9</td>
<td><strong>Banking and the money supply</strong>&lt;br&gt;Transaction demand</td>
<td>(Web notes, Mishkin Ch 12-14)</td>
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<tr>
<td>Page</td>
<td>Topic</td>
<td>Notes</td>
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| 10   | **Overview of the macroeconomic model**  
   - Labour market  
   - Financial capital market  
   - Foreign exchange market  
   - Home money market  
   - Note: the ISLM model of Mishkin is equivalent to the model to be used here but a simpler market representation will be adopted instead | (Web notes) |
| 11   | **The small open economy financial capital market** | (Web notes) |
| 12   | **The exchange rate and the current account** | (Web notes) |
| 13   | **Modelling monetary and fiscal policy** | (Web notes, Mishkin Ch 21) |
| 14   | **Financial shocks and the macroeconomy**  
   - Capital flights as in the Asian financial crisis  
   - Pessimism shocks and the GFC | (Web notes) |
| 15   | **Financial shocks and the macroeconomic policy response**  
   - The limits to monetary policy  
   - When fiscal policy is needed  
   - GFC, causes and consequences  
   - The GFC in the US, Europe and Australia | (Web notes) |
| 16   | **Policy triggers and financial market regulation**  
   - Debates over crisis triggers  
   - Regulation, forms and approaches  
   - Regulatory reform at the global level | (Web notes) |
ASSESSMENT MECHANISM

The purpose of assessment

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work provides you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

Assessment mechanism summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Due date</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Tutorial exercises</td>
<td>25%</td>
<td></td>
<td>Students are required to complete at least six in-tutorial tests during the semester, the best five results from which will contribute to their final assessment. If a tutorial is missed for the usual good reasons, and it happens to have included a test, this test must be made up within one week through contact with the tutor, who will assign at random an alternative question from the missed tutorial exercise.</td>
</tr>
<tr>
<td>Assignment</td>
<td>10%</td>
<td>October 21</td>
<td>12 noon</td>
</tr>
<tr>
<td>Final exam</td>
<td>65%</td>
<td></td>
<td>Venue, day and time available on Student Connect</td>
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Note 1: Results may be subject to scaling and standardisation under faculty policy and are not necessarily the sum of the component parts.

Note 2: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning outcomes as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the unit.

Assessment details

- The most important part of the unit is the tutorial series. This is where participants learn by doing economic and financial analysis. Tutorial participation is therefore essential to the successful completion. Fittingly, then, the in-tutorial assessments are worth 25% of the unit and are non-redeemable. They require an attempt at tutorial questions before attendance. Assessments then provide participants with feedback on a weekly basis.

- There will be one assignment, which is like a tutorial exercise structured into final exam type questions. It is to be completed in full to provide students with an opportunity to do early examination preparation. It will be due by 12 noon, Friday 21 October. Late submissions will not be accepted.

- The papers will be marked by group tutors. The final marks will be adjusted so that all marks are consistent (it is hence important to ensure that your own tutor receives your paper).
Submission of assignment documents

Submit your assignment in an electronic format by going to the Uniprint web site www.uniprint.uwa.edu.au, then click on “Student Assignments” and follow the instructions.

Student Guild

Phone: (+61 8) 6488 2295
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E-mail: enquiries@guild.uwa.edu.au
Website: http://www.guild.uwa.edu.au

Charter of Student Rights and Responsibilities


Appeals against academic assessment

The University provides the opportunity for students to lodge an appeal against assessment results and/or progress status (refer http://www.secretariat.uwa.edu.au/home/policies/appeals).