

**ECN 325, Money, Banking, and Financial Markets, Department of  
Economics and Finance, FALL 2018**

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**INSTRUCTOR AND COURSE INFORMATION**

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Instructor: **Dr. Andrea TERZI**

Office Hours: drop-in Monday and Thursday 15:45–17:00, or by appointment

Contact: 091.986.3632 (voice mail) – [aterzi@fus.edu](mailto:aterzi@fus.edu) (subject field “ECN 325” gives you priority) Schedule: Mondays & Thursdays 14:30–15:45 PM; FUS, Lowerre Academic Center, 8

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**COURSE DESCRIPTION**

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This course provides students with an understanding of the financial dimension of contemporary economies and brings students up to date with modern theories of money and banking and recent developments in the analysis of monetary policy. The course content includes the nature of the means of settlement, the technology of monetary payments, the banking system and its pro-cyclical, crisis-prone character that requires control and regulation, investors’ response to changes in perceived risk and to policy decisions, and central banks’ operations and goals when setting interest rates. Special attention is devoted to current monetary policy issues with special reference (but not limited) to the practice of the U.S. Fed and the European Central Bank.

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**RATIONALE**

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This upper-level course in economics is the first part of an ideal two-semester sequence including ECN 328. It is a program requirement for the major in International Economics, International Banking and Finance, and International Management with an “emphasis” in Finance. It also fulfills group requirements towards the major in International Economics with an emphasis in Political Economy, and Economics as a Combined major as well as a Minor. Students must have taken ECN 100 and ECN 101. Students are warmly recommended to have taken ECN 225, ECN 256, and BUS 326.

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**COURSE GOALS**

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*Critical thinking:* Identify questions, use models when processing thought, judge conclusions; Relate a policy statement to the set of assumptions of the theoretical model of reference. *Problem-solving:* Apply a given technique to new requests. *Communication:* Convey ideas effectively in written, spoken, and graphical form; Utilize relevant data effectively in written and oral presentations; Demonstrate the ability to read, evaluate, and interpret general economic information. *Collaboration:* Provide and receive feedback, ideas, and instruction in a professional manner; Explain the impact of each team member (including oneself) on the collaborative project and the role each member plays. *Technology:* Make appropriate and effective use of information technology for research. *Business knowledge:* Explain the relationships among business, government, and markets. *Lifelong Learning:* Use a model approach to understand and evaluate new economic events. *Social Responsibility:* Describe how alternative courses of action affect various individuals and social groups.

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**SPECIFIC LEARNING OUTCOMES**

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Upon completion of this course, students should be able to:

- Describe the fundamental mechanics of payment systems
  - Analyze the nature of banking risk and evaluate regulation effectiveness
  - Explain and apply the theory of the term structure of interest rates
  - Describe the tools and techniques of monetary policy operations
  - Critically evaluate monetary policy strategic decisions
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## REQUIRED TEXTS AND MATERIALS

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Stephen G. Cecchetti and Kermit L. Schoenholtz, *Money, Banking, and Financial Markets*, McGraw-Hill Irwin, 3rd Global Edition, 2011.

*Course Reader*, available on the Moodle platform. See Table of Contents on page 3 of this document. The *Moodle Course Page* offers additional resources, information, and updates pertaining this course. Students are responsible for checking this platform regularly.

## ASSESSMENT OVERVIEW

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Assessment is based on the following tasks:

- One 65-minute cumulative midterm examination: 30%
- Commitment to learning and contribution to learning of others: 5%
- Individual in-class assignments: 20%
- One cumulative 90-minute final examination: 40%
- Full payment of three Franklin Franks by the last day of classes: 5% - See page 4 of this document.

## ASSESSMENT DETAILS

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All exams are a mixture of problems, short answers, multiple choice and open-ended questions. Commitment to learning and contribution to learning of others include summarizing key points, enthusiasm in learning situations, contributing to or originating discussion, sharing real-world examples or experiences, eliciting input, opinions, and participation of others. Students will also demonstrate commitment by answering instructor's questions about the texts read for class, engaging in group-work assignments, discussing assigned topics, and contributing during the class debate sessions.

## GRADING POLICIES AND EXPECTATIONS

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At the end of the semester, you will receive a score from 0 to 100%. Your total points will be translated into a final letter grade (plus/minus when applicable) using the following scale: 90-100=A (exceeds expectations); 80-89=B (meets expectations); 70-79=C (partial achievement); 60-69=D (does not meet the goal); 0-59=F (no credit).

## HOW TO DO WELL IN THIS COURSE (POLICIES / REQUIREMENTS)

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*Active learning class:* This is an active learning class where students gain first exposure to new material outside of class, via readings and videos available on the Moodle Course Page, and then class time is used to do the harder work of assimilating that knowledge through strategies such as problem-solving, discussion, applications, and debates.

*Class behavior:* On-time arrival, respect, courtesy, attentiveness, not leaving while class is in session without permission to be obtained before class begins, not using devices for personal reasons (be a focused contributor!).

*Attendance:* Learning is an active process. To succeed in this course you should be rather active both during class meetings and outside of class. Nonattendance lowers your score. Should you miss a class, you are responsible for any missed information. Extended absences may result in you being asked to withdraw from the class.

*Scheduled reports and presentations:* Once assigned, presentations cannot be postponed without documented evidence of a major disruption to your work.

*Exam dates:* All exam dates are binding. Please do not ask to take your exam at a different date than the one posted on this calendar. No make-up of exams can be given. A missed midterm exam will receive a grade of zero unless the student 1) makes every effort to notify the instructor prior to the exam to be missed by phone or email; and 2) provides formal documentation of a condition of illness or serious family emergency. When both conditions are met, the weight of the exam will be shifted to the final exam. There is no make-up of in-class assignments.

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## FRANKLIN FRANK

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**The Franklin Frank Community Engagement (FFCE) program** invites Franklin University students to contribute their time to volunteer work with local institutions and non-profit organizations in the Franklin neighbourhood.

Students can earn one FF for each hour of community work.

The list of community work that warrants the payment of FFs in Fall 2018 includes:

- Volunteering for the Lugano human rights film festival (Oct 3)
- Volunteering for the Clean-up Day (to be confirmed)
- Other activities that are approved by the Economics and Finance Department.

Once community service is completed, the student volunteer has to get the Franklin Frank Program Student Volunteer Form (available on Moodle) signed by the event supervisor, and submit the signed form to Franklin Reception (check for the time slot when FF distribution is open) in order to get their FFs.

## ACADEMIC INTEGRITY: STATEMENT ON CHEATING AND PLAGIARISM

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A student whose actions are deemed by the University to be out of sympathy with the ideals, objectives or the spirit of good conduct as fostered by the University and Swiss community, may be placed on Disciplinary Probation or become subject to dismissal from the University.

Cheating is a dishonest action out of sympathy with the ideals, objectives and spirit of the University. Furthermore, cheating reflects negatively on one's personal integrity and is unjust to those students who have studied. See the Academic Catalog 2018-2020 for full statement (page 199)

## RESOURCES AVAILABLE

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*Writing and Learning Center:* For all writing and learning support issues (time management, study skills, preparing for exams, reading and presentation skills, and all steps of the writing process from brainstorming a paper to outlining, editing to proofreading) schedule an appointment with a tutor by going to the website [wlc.setmore.com](http://wlc.setmore.com). Drop-in assistance 10am-5pm (Fridays only 10am-3pm). Tutors can give you individual one-one-one support in all of these areas. For further inquiries, contact Ann Gardiner, WLC Director ([agardiner@fus.edu](mailto:agardiner@fus.edu)) or Olivia Della Croce, WLC Assistant Director ([odellacroce@fus.edu](mailto:odellacroce@fus.edu)).

*Honors Society:* This offers an added opportunity for students seeking to pursue their academic interests. The program is especially suitable for students contemplating graduate study after Franklin. Contact Professor Marcus Pyka ([mpyka@fus.edu](mailto:mpyka@fus.edu)), LAC 12.

*Accessibility Services:* If you have a disability and you would like to discuss the possibility of receiving accommodations, please write to [accessibility.services@fus.edu](mailto:accessibility.services@fus.edu) to make an appointment with the Accessibilities Coordinator.

## BIBLIOGRAPHY (TABLE OF CONTENTS OF THE COURSE READER)

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1. European Central Bank (2010). *Key Concepts – Payments*, Chapter 1 of The Payment System.
  2. Dalton, G. (1982). *Barter*. *Journal of Economic Issues*, 16(1), 181-190.
  3. Desan, Christine (2015). *Money as a Legal Institution, Money in the Western Legal Tradition: Middle Ages to Bretton Woods*, a cura di David Fox e Wolfgang Ernst, Oxford University Press.
  4. McLeay, Radia and Thomas (2014a). *Money in the modern economy: An introduction*, Bank of England QB.
  5. Terzi (2015). *Central bank money*, The Encyclopedia of Central Banking, Louis-Philippe Rochon and Sergio Rossi (editors), Cheltenham: Edward Elgar.
  6. McLeay, Radia and Thomas (2014b). *Money creation in the modern economy*, Bank of England QB.
  7. Wray (2011). *Minsky crisis*. Levy Economics Institute of Bard College, WP No. 659.
  8. European Central Bank (2004). *Minimum reserve requirements (BOX)*
  9. Ihrig-Meade-Weinbach (2015). *Monetary Policy 101: A Primer on the Fed's Changing Approach to Policy Implementation*, U.S. Federal Reserve Board.
- European Central Bank (2015). *The role of the central bank balance sheet in monetary policy*. Economic Bulletin No 4.

## COURSE SCHEDULE

Numbers in the right-end column refer to chapters from the Cecchetti-Schoenholtz textbook (C) and from the Course Reader (R).

AUG 27	<b>Introduction to the course: National currencies, bank credit, and financial assets and liabilities</b>	
AUG 30	<b>Part 1: Monetary contractual payments</b> Payment settlement systems: assets and instruments	C1 C2 R1 (-1.4)
SEP 3	Correspondent banking and interbank funds transfer systems	R1
SEP 6	The social context of monetary payments: Means to transfer value	R2
SEP 10	Currencies as legal institutions	R3
SEP 13	The value of settlement assets: Central bank money and bank money	R4
SEP 17	Payments between issuers and users	R5, R6
SEP 20	Financial transactions: Interest rates and yields	C3 C6
SEP 24	Discussion	
SEP 27	<b>Part 2: The business of banking</b> Profits and risks	C12
OCT 1	Bank credit pro-cyclicality	R7
OCT 4	Information asymmetry while trading financial assets	C11
OCT 8	The government safety net, regulation, and supervision	C14
OCT 11	Discussion	
OCT 15	Midterm review	
OCT 18	<b>Midterm examination</b>	
NOV 5	<b>Part 3: Monetary policy and the market for financial assets</b> The U.S. Federal Reserve System and the European Central Bank	C16
NOV 8	The central bank's balance sheet	C17 (-475)
NOV 12	How central banks set interest rates	C18
NOV 15	Minimum reserve requirements	R8
NOV 19	Market yields: Risk and term structure	C7
NOV 22	Corridor vs. floor system	R9
NOV 26	Transmission channels to the real economy	C23
NOV 29	Standard and 'Non-standard' monetary policy in the aftermath of the Great Recession	R10
DEC 3	Discussion	
DEC 6	Final review	
DEC 10	<b>Final examination – 13:30</b>	