
St. Francis Xavier University

Department of Economics

ECON 335 and 336: Money & Financial Markets I and II

Fall 2018 & Winter 2019

Lectures:

Wednesday 9:45 – 11:00AM &
Friday 8:15 – 9:30AM

Lecture Locations:

ECON 335 (Fall 2018) in SCHW 152
ECON 336 (Winter 2019) in KC2021-22

Instructor & Office Location:

Dr. Greg Tkacz, Lane Hall A206

Office Hours:

Wednesday 11:00AM to 12:00PM
Thursday 9:30AM to 11:00AM
Friday 9:30AM to 11:00AM

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Description

This is a two-course sequence in monetary and financial system economics and policy.

ECON 335: *Money & Financial Markets I* deals with the various forms of financing that can be available to firms, governments and households (bank credit, bonds and equity issues). We derive and study models that explain asset price movements, with a specific focus on factors that can be influenced by policy-makers. We examine the consequences of severe asset price corrections, with the financial crisis of 2008-09 being given special consideration, and how policy-makers can prevent, or mitigate, the impact of, crises.

ECON 336: *Money & Financial Markets II* builds on the foundations of 335 to study the conduct of monetary policy. This involves understanding the *tools* and *targets* of the central bank, which requires an understanding of the transmission mechanism of monetary policy. Consequently, your knowledge of macroeconomics and finance will come together.

Pre-requisites

ECON 101 and 102

Key Dates

ECON 335:

- Fri Sep 21, 3:45 – 5:00PM
in Schwartz 289: Bank of
Canada careers info session
- Wed Oct 10 (Quiz #1)
- Wed Nov 14 (Quiz #2)

ECON 336:

- Wed Jan 30 (Ass. #1)
- Wed Feb 13 (Mid-Term)
- Fri Feb 15 (Mid-Term
Make-Up date)
- Wed Mar 20 (Ass. #2)

Teaching and Learning Style

These are lecture-based courses, where attendance and note-taking is mandatory and important. We will derive relatively complex models step-by-step, and writing down the steps (either graphically or algebraically) using pen and paper will be crucial for developing your understanding of the material.

N.B. Notes will NOT be posted on Moodle. Should you miss a lecture, it is your responsibility to obtain the notes from a classmate.

In addition, we will be monitoring financial and economic developments in real-time, and readings may be drawn from the financial press. The *National Post*, *Globe and Mail* and *CNN* will be our regular sources. We will then try to bridge the gap between textbook theory and real-life developments by showing how our models can explain current developments.

PowerPoint will NOT be used to deliver the material. We will use technology only to show charts of recent economic or financial data.

Evaluation

ECON 335:

- Quiz #1 (Wed October 10): 25%
- Quiz #2 (Wed November 14): 25%
- Final Exam (December): 50%

In addition, end-of-chapter and/or MyEconLab problem sets will be assigned, but do not need to be handed-in. We will go over the solutions in class after a suitable delay.

N.B. Should you miss one quiz, its weight will automatically be added to the final exam. Should you miss two quizzes, you will not be permitted to write the final exam, and you will receive a grade of zero for the course. No make-up quizzes will be administered.

ECON 336:

- Assignment #1 (due on Wednesday, January 30): 10%
- Mid-Term Exam (Wednesday, February 13): 30%
- Assignment #2 (due on Wednesday, March 20): 10%
- Final Exam (April): 50%

N.B. Assignments will consist of selected end-of-chapter and/or MyEconLab problems. They must be handed-in before the end of class on the due date. E-mailed assignments will not be accepted. A 10% penalty will be applied for every day that an assignment is late, up to a maximum of two days, beyond which assignments will not be accepted and a grade of zero will be recorded. Should you fail to write the mid-term exam on February 13, you will need to write the make-up mid-term on Friday February 15, in-class. Should you fail to write the mid-term on either of these dates, you will receive a grade of zero on the mid-term. Consequently, only students writing a make-up mid-term need to attend class on February 15.

Readings

- Mishkin, F.S. and A. Serletis (2016) *The Economics of Money, Banking, and Financial Markets*, Sixth Canadian Edition. Toronto: Pearson. [Available from the StFX Bookstore. Will be used for both ECON 335 and 336]
- Bank of Canada *Monetary Policy Report* (July 2018, October 2018, January 2019)
[www.bankofcanada.ca/publications/mpr/]
- Bank of Canada *Financial System Review* (June 2018)
[www.bankofcanada.ca/publications/fsr/]
- www.NationalPost.com
- www.TheGlobeAndMail.com
- www.cnn.com

The Bank of Canada Governor's Challenge

The Bank of Canada sponsors a monetary policy case competition every fall, whereby teams of undergraduate students are required to formulate a policy proposal for the Bank's decision-makers based on their analysis of recent economic and financial conditions. The StFX team made it to the national finals in Ottawa in 2016, narrowly missing victory. Two of the team members ended-up with jobs at the Bank, and three of them have since completed Master's degrees in Economics.

If you perform very well in ECON 335 & 336, have a solid background in Macroeconomics, Finance and Econometrics, have good communication skills, and you plan to return to StFX in the 2019-20 academic year, I will personally invite you to join the StFX Governor's Challenge team in the **Fall of 2019**. You will then receive permission to register for a Selected Topics course: ECON 491 *ST: Monetary Policy*, which will be restricted to five students, and which will train you in the art and science of monetary policy-making.

ECON 335: Course Outline

Weeks 1 – 2: Introduction

- Chapter 1: Why Study Money, Banking & Financial Markets?
- Chapter 2: An Overview of the Financial System

Weeks 3 – 5: Bond Financing & Bond Price Movements

- Chapter 4: The Meaning of Interest Rates
- Chapter 5: The Behavior of Interest Rates
- Chapter 6: The Risk and Term Structure of Interest Rates

*** Quiz #1 around here ***

Weeks 6 – 7: Equity Financing & Stock Price Movements

- Chapter 7: The Stock Market, the Theory of Rational Expectations, and the Efficient Market Hypothesis

Weeks 7 – 10: Bank Financing: Real Estate Prices & Financial Crises

- Chapter 8: An Economic Analysis of Financial Structure
- Bank of Canada June 2018 *Financial System Review*
- Chapter 9: Financial Crises

*** Quiz #2 around here ***

Weeks 11 – 13: Preventing Financial Crises: Banks and Banking Regulations

- Chapter 10: Economic Analysis of Financial Regulation
- Chapter 11: Banking Industry: Structure and Competition

*** December Final Exam ***

ECON 336: Course Outline

Weeks 1 – 2: Introduction

- Chapter 3: What is Money?

Weeks 2 – 6: Central Banking and Monetary Policy

- Chapter 14: Central Banks and the Bank of Canada
- Chapter 15: The Money Supply Process
- Chapter 16: Tools of Monetary Policy
- Chapter 17: The Conduct of Monetary Policy: Strategy and Tactics
- Bank of Canada January 2019 *Monetary Policy Report*

*** Mid-Term around here ***

Weeks 7 - 13: Monetary Theory

- Chapter 20: Quantity Theory, Inflation and the Demand for Money
- Chapter 21: The IS Curve
- Chapter 22: The Monetary Policy and Aggregate Demand Curves
- Chapter 23: Aggregate Demand and Supply Analysis
- Chapter 24: Monetary Policy Theory
- Chapter 26: Transmission Mechanisms of Monetary Policy

*** April Final Exam ***