

The Economics of Money and Banking

Introduction to the principles of money and banking, the intermediary institutions of the American economy and their historical development, the principle financial instruments of the money market, current issues in monetary and financial reform.

Students who complete this course will learn how to:

- 1) Read, understand, and evaluate professional discourse about the current operation of money markets at the level of the Financial Times
- 2) Follow an argument/analysis that uses balance sheet reasoning
- 3) Construct an argument/analysis that uses balance sheet reasoning
- 4) Use diverse primary historical texts to understand current events
- 5) Understand the institutional structure of the dollar money markets, their connection to capital markets, and the mechanisms of central bank control

Coursera: The lectures for this course are being offered on the Coursera platform, at www.coursera.org/course/money. Students must create an account with Coursera, and we will use that Coursera login to enroll you in a section of the online class that is just for this class. Students are expected to have viewed the assigned lecture before coming to class.

Readings: The main texts are:

Perry Mehrling, The New Lombard Street, How the Fed Became the Dealer of Last Resort (Princeton Press 2011)

Ryan-Collins, Josh et al. Where does money come from? (New Economics Foundation 2013)

Multiple copies will be available in the library, but you may also purchase at Columbia Bookstore or online.

In addition to the texts there will be weekly readings available on Coursera. Regular reading of the financial press (for example, The Financial Times) is recommended as an invaluable aid for developing familiarity with the structure and function of modern banking institutions.

Classtime: Because the lectures are online, classtime will be used to reinforce central points and to reformulate and rework analytically challenging bits. As time permits, I will also be generating impromptu lectures on current issues in the Financial Times, and mini-lectures on the readings. Because the online class is shorter than the oncampus class, I will be adding two additional lectures, which are optional.

Problem Sets: There will be three problem sets, graded check (minus/plus), to help you get on top of the more technical aspects of the course. These may be done and submitted in groups of no more than 4.

Book Review: A five-page paper, due on the last day of class, that uses the concepts of the class to engage the argument of a book selected by you from the appended list.

Prerequisites: Intermediate Macroeconomics (BC3033 or W3213) and Intermediate Microeconomics (BC3035 or W3211).

Grading: Work will be assessed by means of two exams with the following weights

Problem Sets	10%
Midterm	30%
Final	30%
Book Review	30%

TA: The teaching assistants for this course will be holding weekly discussion sessions. Before the mid-term the focus of these sessions will be on the analytical dimensions of the course. After the mid-term the focus will be on the various book review themes, following student interest.

Andreas Kalker
Elham Saeidinezhad
Ding Yuan

Lecture Schedule

Introduction

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|------|---|--------|
| 9/3 | 1. The Four Prices of Money | |
| 9/8 | 2. The Natural Hierarchy of Money | Young |
| 9/10 | 3. Money and the State: US Monetary History | |
| 9/15 | 4. The Money View, Micro and Macro | Minsky |
| 9/17 | History of Monetary Thought | |
| 9/19 | | |

PS1 "Balance Sheets" due

Banking as a Clearing System

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|------|--|---------|
| 9/22 | 5. The Central Bank as a Clearinghouse | Dunbar |
| 9/24 | 6. Federal Funds: Final Settlement | |
| 9/29 | 7. Repos: Postponing Settlement | Bagehot |
| 10/1 | 8. Eurodollars: Parallel Settlement | |
| 10/3 | | |

PS2 "Repo Math" due

Banking as Market Making

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|-------|--------------------------------------|---------|
| 10/6 | 9. The World That Bagehot Knew | Hicks |
| 10/8 | 10. Dealers: Liquid Security Markets | |
| 10/13 | 11. Banks: The Market for Liquidity | Treynor |
| 10/15 | 12. Lender/Dealer of the Last Resort | |
| 10/17 | | |

PS3 "Dealer Econ" due

10/20 Review

10/22 MIDTERM

10/27 Diamond and Dybvig, Holmstrom and Tirole

International Money and Banking

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|-------|---|--------------|
| 10/29 | 13. Chartalism, Metallism, and Key Currencies | |
| 11/3 | Election Day Holiday | Mundell |
| 11/5 | 14. Money and the State: International Monetary History | |
| 11/10 | 15. Banks: Global Liquidity | Kindleberger |
| 11/12 | 16. Foreign Exchange | |

Banking as Advance Clearing

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|-------|---------------------------------|-------------|
| 11/17 | 17. Direct and Indirect Finance | Gurley/Shaw |
| 11/19 | 18. Forwards and Futures | |
| 11/24 | 19. Interest Rate Swaps | FOMC |
| 11/26 | Thanksgiving | |
| 12/1 | 20. Credit Derivatives | Mehrling |

Banking and the Real World

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|------|---|--|
| 12/3 | 21. Shadow Banking, Central Banking, and Global Finance | |
| 12/8 | 22. Touching the Elephant: Three Views | |

FINAL EXAM (December 15, 7:10-10)

Supplemental Readings:

Bagehot = Bagehot, Walter (1873) Lombard Street, A Description of the Money Market.

Dunbar = Dunbar, Charles F. “The Check System”, Ch. 4 in Chapters on the Theory and History of Banking (1891).

FOMC = “Report of the Ad Hoc Subcommittee on the Government Securities Market” (1952). Reprinted in U.S. House Committee on Banking and Currency, The Federal Reserve after Fifty Years, vol. 3. 88th Congress, 2nd session. (US GPO, 1964).

Gurley/Shaw = Gurley, John G. and Edward S. Shaw (1960) Money in a Theory of Finance

Hicks = Hicks, John. “The Nature of Money,” “The Market Makes its Money,” and “Banks and Bank Money.” Chapters 5-7 in A Market Theory of Money (Oxford 1989): 41-63.

Kindleberger = Despres, Emile, Charles P. Kindleberger, and Walter S. Salant. “The Dollar and World Liquidity: a Minority View”, The Economist 1966.

Mehrling = “The Art of the Swap” and “What Do Dealers Do?” Chapters 4-5 in The New Lombard Street, How the Fed became the Dealer of Last Resort (Princeton 2011): 71-112.

Minsky = Mehrling, Perry. “The Vision of Hyman Minsky.” Journal of Economic Behavior and Organization 39 No. 2 (June 1999): 129-158.

Mundell = Mundell, Robert. “A Reconsideration of the Twentieth Century.” American Economic Review (June 2000): 327-340.

Treynor = Treynor, Jack L. “Economics of the Dealer Function.” Financial Analysts Journal 43 No. 6 (November/December 1987): 27-34.

Young = Chaps. 31-34 in “Commerce: The Marketplace of the World”, 1924. Reprinted as pp. 265-321 in Mehrling and Sandilands, ed. Money and Growth, Routledge 1999.

Book Review: Choose one book from among the following. Other titles are acceptable with prior permission.

Reform proposals

- Admati, Anat and Martin Hellwig, The Bankers' New Clothes: What's Wrong with Banking and What to Do About It (Princeton 2014)
- Jackson, Andrew and Ben Dyson, Modernizing Money: Why Our Monetary System is Broken and How it Can be fixed (Positive Money 2013)
- Mian, Atif and Amir Sufi, House of Debt: How They (and you) Caused the Great Recession, and How We Can Prevent it from happening again (Univ Chicago Press 2014)
- Calomiris, Charles and Stephen Haber, Fragile by Design: The Political Origins of Banking Crises and Scarce Credit (Princeton 2014)
- Gorton, Gary. Misunderstanding Financial Crises: Why we don't see them coming (Oxford 2012)

Money view and macroeconomics

- Godley, Wynne and Marc Lavoie, Monetary Economics: An Integrated Approach to Credit, Money, Income, Production and Wealth (Palgrave Macmillan 2012)
- Pettis, Michael. The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy (Princeton 2013)
- Gali, Jordi. Monetary Policy, Inflation and the business cycle: an introduction to the New Keynesian Framework. (Princeton 2008)
- Allen, Franklin and Douglas Gale. Understanding Financial Crises. (Oxford 2009)
- Teulings, Coen and Richard Baldwin, eds. Secular Stagnation: Facts, causes, and cures. (VoxEu 2014). Downloadable at www.voxeu.org/content/secular-stagnation-facts-causes-and-cures

Money view versus heterodoxies of the right and left

- Rothbard, Murray N. The Mystery of Banking (Ludwig von Mises Institute 2008)
- Wray, Randall. Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems (Palgrave Macmillan 2012)
- Lietaer, Bernard and Jacqui Dunne. Rethinking Money: How New Currencies Turn Scarcity into Prosperity (Berrett Koehler 2013)
- Werner, Richard. New Paradigm in Macroeconomics: Solving the Riddle of Japanese Macroeconomic Performance (Palgrave Macmillan 2005)

International Money

- Prasad, Eswar. The Dollar Trap: How the US tightened its grip on Global Finance (Princeton 2014)
- McKinnon, Ronald. The Unloved Dollar Standard: From Bretton Woods to the Rise of China (Oxford 2012)

Other

Martin, Felix. Money the Unauthorized Biography (Knopf 2014)

McCraw, Thomas. Prophet of Innovation: Joseph Schumpeter and Creative Destruction
(Belknap 2010)