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:


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:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Problem Sets</td>
<td>10%</td>
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<tr>
<td>Midterm</td>
<td>30%</td>
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<tr>
<td>Final</td>
<td>30%</td>
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<tr>
<td>Book Review</td>
<td>30%</td>
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</tbody>
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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
9/3  1.  The Four Prices of Money
9/8  2.  The Natural Hierarchy of Money
9/10 3.  Money and the State: US Monetary History
9/15 4.  The Money View, Micro and Macro
9/17 History of Monetary Thought
9/19

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

Banking as Market Making
10/6 9.  The World That Bagehot Knew
10/8 10.  Dealers: Liquid Security Markets
10/15 12.  Lender/Dealer of the Last Resort
10/17

10/20 Review
10/22 MIDTERM
10/27 Diamond and Dybvig, Holmstrom and Tirole

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

Banking as Advance Clearing
11/17 17.  Direct and Indirect Finance
11/19 18.  Forwards and Futures
11/24 19.  Interest Rate Swaps
11/26 Thanksgiving
12/1 20.  Credit Derivatives

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

PS1 “Balance Sheets” due
PS2 “Repo Math” due
PS3 “Dealer Econ” due

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

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


**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)


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**


**Money view versus heterodoxies of the right and left**

Rothbard, Murray N. *The Mystery of Banking* (Ludwig von Mises Institute 2008)


**International Money**


Other

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