

EC8017: Money and Banking

Module Code:	EC8014
Module Name:	Money and Banking
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ECTS Weighting:	10
Semester Taught:	Michaelmas Term
Contact Hours:	30 Hours. Fridays, 11.30-13.00 and 14.00-15.00

Summary

This module combines the economic theory of financial markets and monetary policy with the history of money, banking and financial crises to provide participants with the context and tools to analyse the recent financial crisis.

The course starts by investigating some of the core principles and conceptual developments underlying money, banking and financial markets. It will consider some of the key distinguishing features of financial markets: for example, the importance of information and risk. It will go on to analyse the operation of financial intermediation and the role of different financial institutions in the market economy. The course will separately consider the role of banks and of the Central Bank.

Then the focus will shift to the role of money in the macro-economy: the demand for money, the link between money, inflation and the real economy. The role of monetary policy and the levers available to manage monetary policy will be examined. Having considered monetary policy in a closed economy context, the role of the exchange rate and how monetary policy can affect it will be discussed. In each case practical examples from recent European experience will be used to illustrate the theory.

The course then examines the nature and evolution of money and the evolving role of financial innovation in changing the underlying structures of banks, credit creation and financial intermediation. It analyses the way in which some of the great monetary theorists have examined the macroeconomy and the interconnections between it and the financial system. Does money have a real role to play in the economy or is it a veil? Particular attention is paid to the history of financial bubbles and the way in which such bubbles can create contagion effects resulting in marked distortions of the behaviour of the real economy. In this evolving monetary and financial environment the role of central banks and financial regulators are analysed. The module investigates the monetary policy strategies of two major central banks (the ECB and the Federal Reserve Bank) against the background of the recent financial crisis.

Finally the recent Irish financial crisis is examined against the background and the global financial crisis. The type of appropriate policies that are necessary to prevent a recurrence of further financial crises will constitute the final part of this module.

Learning Outcomes

Having successfully completed this module, students will be able to:

- Discuss the recent performance of financial markets and monetary policy interventions in the light of economic theory;
- Examine the main financial instruments and discuss their use in intermediation and redistribution of risk;
- Describe the recent trends in the organisation of the financial sector and recognise the key theories of banking;
- Examine the concept of money and the factors determining the demand and supply of money;
- Discuss the role of money and monetary policy in the operation of the macro-economy.

John FitzGerald: October 2nd to October 30th

Lecture 1: October 2nd

An Introduction to Money, the Financial System and the Payments System

Financial Instruments, Financial Markets, and Financial Institutions

Value of time

Risk

Information – has a value

Markets – allocate capital

Regulation – for stability

Lecture 2: October 9

Financial intermediation and financial institutions

Role of banks

Bank Balance sheets

Banks – risk and return

Other private sector financial institutions

Regulating the financial sector

Role of the Central Bank

Objectives of the Central Bank

Central bank policy levers

Central Bank Balance sheet

Lecture 3: October 16

Money and the macro-economy:

The Quantity theory of Money

The demand for money

Targeting money growth

The Lucas critique

Lecture 4: October 23

Money, Inflation and real output

Aggregate expenditure and the real interest rate

How interest rate affect demand (investment, consumption, etc.)

Inflation real interest rate

Taylor rule – inflation and potential output

Aggregate supply curve

Sticky prices, goods, labour

Potential output

Adjusting to equilibrium

The business cycle

Monetary policy, inflation and output

Lecture 5: October 30

Exchange rates, monetary policy and the real economy

Case Study: German Unification and the European economy

Antoin Murphy: November 6th to December 18th

Lecture 6: November 6th

The nature of money. What is money? Does it have a real effect on the economy? Money and banks. The role of financial innovation. The shadow banking system. Money and finance. Is it possible to control (a) the monetary system (b) the financial system?

November 13th Reading week

Lecture 7: November 20th

Survey of monetary thought and policy. Some relevant historical and conceptual issues raised by John Law, Richard Cantillon, A.R.J. Turgot, Henry Thornton, Joseph Schumpeter, John Maynard Keynes, Milton Friedman.

Lecture 8: November 27th

Financial Market Bubbles The history of bubbles. The gestation of bubbles. Hyman Minsky and Charles Kindleberger's analyses of financial bubbles.

Lecture 9: December 4th

The Financial Market Bubbles of 2008-14 and their contagion effects. The Financial Crisis Inquiry Report on the Causes of the Financial and Economic Crisis in the United States (2011).

Lecture 10: December 11th

The roles and efficacy of Central Banks during the recent financial crisis. Analysis of the performances of the Federal Reserve System and the European Central Bank. Quantitative easing and its effects on the macroeconomy.

Lecture 11: December 18th

The Irish financial crisis. How did it arise? The appropriateness of policy measures during the crisis. The future.

Assessment

To follow.

Reading List

Additional reading may be assigned for individual lectures.

- Cecchetti, Stephen G and Kermit C. Schoenholtz (2014) *Money, Banking, and Financial Markets* (McGraw Hill, 4th edition). This will be the textbook for the first part of the course.
- *Calomiris, Charles W. and Stephen H. Haber (2014) *Fragile By Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton University Press).
- Cassidy, John (2009) *How Markets Fail: The Logic of Economic Calamities* (Penguin).
- *Donovan, Donal and Antoin E. Murphy (2013) *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis* (Oxford University Press)

- Geithner, Timothy (2014) *Stress Test: Reflections on Financial Crises* (Random House).
- Irwin, Neil (2013) *The Alchemists: Three Central Bankers and a World on Fire* (Penguin).
- Murphy, Antoin E. (2009) *The Genesis of Macroeconomics: New Ideas from Sir William Petty to Henry Thornton* (Oxford University Press)
- Pisani-Ferry, Jean (2011) *The Euro Crisis and Its Aftermath* (Oxford University Press).
- **The Financial Crisis Inquiry Report* (2011) (Published by Public Affairs, USA).

Module Website

Course materials are available here:

<https://www.tcd.ie/Economics/postgraduate/msc-economic-policy-studies/course-materials/>