ECON30005
Money and Banking

SUBJECT GUIDE

Semester 2, 2013

Prepared by
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Department of Economics
Faculty of Business and Economics
Subject Outline

Introduction

Welcome to ECON30005 Money and Banking.

A detailed list of topics to be covered will be found in the lecture outline on page 5.

It is important that you be aware of two things. 1. The focus in lectures and tutorials will be on Australian data, institutions and policy. 2. We will cover a good deal of applied economics AND ECONOMIC THEORY (and far more than might be the case if the subject were taught in a Finance department).

Subject Aims

The overall aim of this subject is for you to learn about the operation of monetary policy and the banking sector in Australia and some theoretical techniques of use in studying these topics.

Textbook

The textbook is *F. Mishkin, The Economics of Money, Banking and Financial Markets, 10th edition, 2012 (sometimes the date given for the 10th edition is 2013)*. Copies are available in the Bookroom.

During the semester it will be referred to as “Mishkin”.

The library has only a few copies of this book.

The 10th edition is the one you should be using because it has far more policy-relevant material in it than the earlier editions.

Many of the chapters in Mishkin have appendices which have to be downloaded from the web. I have downloaded all of the ones which we will need for you. They have been loaded into the subject’s LMS page and can be found in the menu item “Textbook’s Resources”. I will refer you to (some of) them as they are needed.

Learning Outcomes

Subject Objectives

To view the subject objectives and the generic skills you will develop through successful completion of this subject, please see the University Handbook:


To view the learning goals, generic skills and graduate attributes for your degree, please locate the University Handbook entry for your degree at: http://handbook.unimelb.edu.au/
**Generic Skills**

In this subject you will have the opportunity to develop important generic skills. These include:

- High level of development: written communication; application of theory to practice; interpretation and analysis.
- Moderate level of development: oral communication; collaborative learning; problem solving; statistical reasoning; critical thinking; synthesis of data and other information; evaluation of data and other information; accessing data and other information from a range of sources; receptiveness to alternative ideas.
- Some level of development: team work; use of computer software.

**Awareness Issues**

At a broader level, studying this subject will increase your awareness of issues relating to economic policy in Australia and deepen your understanding of relevant economic theory.

**Prerequisites**

ECON20001 Intermediate Microeconomics

AND

ECON20002 Intermediate Macroeconomics.

**Academic Staff Contact Details**

**Subject Coordinator (Lecturer) Contact Details**

Your lecturer for the subject is Robert Dixon.


Email: r.dixon@unimelb.edu.au

Room: 348 (FBE Building)  Phone: 8344 5352

Consultation Hour: Tuesday 11 to 12.

**Tutor Contact Details**

Your tutor is Maurice Ng

Email: wng@unimelb.edu.au

Consultation Hour: Friday 10:00am - 11:00am in room 345 (FBE Building)
Email Protocol

Please note that we are only able to respond to student emails coming from a University email address. Please do not use personal email addresses such as Yahoo, Hotmail or even business email addresses. Emails from non-University email addresses may be filtered by the University’s spam filter, which means that we may not receive your email. All correspondence relating to this subject will only be sent to your University email address. Note that you must first activate your University email address before you can send or receive emails at that address. You can activate your email account at this link: http://accounts.unimelb.edu.au/.

While academic staff endeavor to address queries received via email, it is more appropriate to resolve substantive questions during lectures and tutorials and during normal consultation hours. With this in mind, we encourage students to attend all lectures and tutorials and to familiarise themselves with the consultation hours offered by the lecturer and tutor in this subject.

Lectures

Lecture Times

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuesday</td>
<td>9:00am - 10:00am</td>
<td>Old Arts Theatre C</td>
</tr>
<tr>
<td>Thursday</td>
<td>9:00am - 10:00am</td>
<td>FBE (2nd floor) Theatre 3</td>
</tr>
</tbody>
</table>

Lecture Participation Requirements

Except for the first two lectures you should download lecture slides from the LMS and bring them to the lecture.

You should ALWAYS read the slides BEFORE the lecture and then bring them along to the lecture and makes notes on them as we go through them.

Lecture slides, other lecture handouts and Tutorial questions

These will be placed on the LMS in the menu items “Lectures” or “Tutorials”.
### Lecture Topics

<table>
<thead>
<tr>
<th>Week and Lecture No.</th>
<th>Topic(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 L1 &amp; L2</td>
<td>Administration: Inflation in Australia; Aggregate demand and supply; Okun’s law; Unemployment in Australia, the Phillips curve</td>
</tr>
<tr>
<td>2 L3 &amp; L4</td>
<td>AD - AS and the labour market, New Keynesian Phillips curve</td>
</tr>
<tr>
<td>3 L5 &amp; L6</td>
<td>The Money Supply; Credit; Velocity; Baumol on demand for cash; The quantity theory of money</td>
</tr>
<tr>
<td>4 L7 &amp; L8</td>
<td>Money demand theory cont.: Empirical work on Money demand in Australia</td>
</tr>
<tr>
<td>5 L9 &amp; L10</td>
<td>Tobin on money demand; Interest rates; Bank interest rates: Bank Accepted Bills</td>
</tr>
<tr>
<td>6 L11 &amp; L12</td>
<td>Certificates of Deposit, Bonds; Interest rates and ‘returns’, interest rate risk; Interest rate ‘spreads’: Term structure and the Yield curve</td>
</tr>
<tr>
<td>7 L13 &amp; L14</td>
<td>Central banking, monetary policy, inflation targeting, Taylor rule &amp; Taylor principle: Loss functions and rules, Empirical evidence on RBA interest rate behaviour and the RBA’s policy reaction function</td>
</tr>
<tr>
<td>8 L15 &amp; L16</td>
<td>RBA and the cash rate: Impacts of interest rate changes, Introduction to FOREX markets, Real exchange rate, VAR modelling</td>
</tr>
<tr>
<td></td>
<td>Non-Teaching Period</td>
</tr>
<tr>
<td>9 L17 &amp; L18</td>
<td>Speculation in FOREX markets (eg Baht and AUD), RBA intervention in the AUD FOREX market: Global Financial Crisis, Walras’ Law and Keynes</td>
</tr>
<tr>
<td>10 L19 &amp; L20</td>
<td>The Global Financial Crisis and the state of macro; Government debt and ‘Austerity’; Banking sector in Australia: Assets and liabilities; interest and credit risk</td>
</tr>
<tr>
<td>11 L21 &amp; L22</td>
<td>Determinants of returns to owners, adverse selection and moral hazard; prudential supervision, Capital buffers.</td>
</tr>
<tr>
<td>12 L23 &amp; L24</td>
<td>Microeconomics of Banking; Securitisation: Bank Regulation before and after the GFC, systemic risk, Too big to fail?</td>
</tr>
</tbody>
</table>

Detailed reading will be given in the slides for each lecture.
Lectures will not be recorded.
Tutorial Participation Requirements

Students are required to attend 1 one-hour tutorial per week. Tutorials in this subject commence in the second week. You enrol in tutorials via the Student Portal.

Tutorials are an integral and VERY important part of the subject. Tutorials will be used both to complement and to supplement the lectures and the reading material. Note that the rule which will operate in this subject is that if you do not prepare for the tutorial then you don't go to the tutorial.

Exam questions will all be based on (i.e. they will be modifications, extensions and/or combinations of) the questions on Tutorial sheets and the Assignments.

Assessment

Assessment Overview

The handbook entry for the subject dictates the assessment. It reads “A 2-hour end-of-semester examination (80%) and class assignments of 2000 words in Total (20%)”.

Assignments

There will be two assignments - each will be worth 10 marks. I expect the first assignment will be distributed in Lecture 9 and will be due in at lecture 13, I expect the second will be distributed in Lecture 18 and will be due in at lecture 21. (But note that these are tentative dates.)

Like the tutorial questions, the assignment questions will also be practice exam questions. You will be encouraged to work in small groups on the assignments and to hand in assignments ‘as a group’. All members of the group will be given the same mark. No more than four students may make up a group. Note that no two groups may hand in the same assignment.

It is possible that due dates for one or both of the assignments will also be due dates for work in another subject or subjects. Be mindful of this.

Assignments must be handed in to us in paper form. Emailed copies will not be marked. All pages of an assignment should be stapled together or fastened together by some other secure means.

Assignments are to be submitted at your lecture on the due date, NOT to the Undergraduate Student Centre, and not electronically.

Before submitting an assignment, you should attach a cover sheet (I will give it to you with the assignment) to the front of your assignment – this must have on it your name(s) and the day and time of your tutorial.

ALWAYS keep a copy of your assignment in case the one you hand in gets lost.
Late Assignments will NOT be accepted

Students with a genuine and acceptable reason for not completing an assignment, such as illness, can apply to the lecturer to have their marks for that assignment transferred to the final exam. Suitable evidence, such as a doctor’s certificate is required. Applications made more than 3 days after the assignment is due will not be considered.

Plagiarism and Collusion are not acceptable behaviour

Plagiarism is the presentation by a student or a group of students of an assignment identified as their own work even though it has been copied in whole or in part from another student’s work, or from any other source, without due acknowledgement in the text. Collusion is the presentation by a student or a group of students of an assignment as their own work when it is, in fact, the result (in whole or in part) of unauthorised collaboration with another person or persons. Both the student(s) presenting the assignment and the student(s) willingly supplying unauthorised material are considered participants in the act of academic misconduct.

Penalties for academic misconduct including plagiarism or collusion can be severe. They can include a mark of zero for the assignment or even failure in a subject or expulsion from the University.

Final Exam

The final exam accounts for 80 marks. It will be a mix of multiple choice questions (30 marks) and essay questions (50 marks). Exam questions will be based on (i.e. they will be modifications, extensions and/or combinations of) the questions on Tutorial sheets and the Assignments. Another way to put this is to say that the tutorial questions and assignment questions will all be practice examination questions.

Special Consideration

Students who have been significantly affected by illness or other serious circumstances during the semester may be eligible to apply for Special Consideration. The following website contains detailed information on the rules governing Special Consideration: http://fbe.unimelb.edu.au/csc/assistance/special_consideration

Subject Prize

The State Chamber of Commerce Exhibition for Money and Banking is awarded to the student who achieves the highest overall result in the subject. If more than one student is ranked first overall the prize will be shared. For full details of this and all other subject prizes, visit the Faculty website www.fbe.unimelb.edu.au/students/prizes/
Consultations
The lecturer and the tutor will each have a consultation hour. (Details on page 2 above.)

Online Tutor
The Online Tutor allows you to direct questions to a tutor via the LMS. It can be accessed 24 hours a day, 7 days a week. We will attempt to answer your question within 24 hours.

Your questions and the answers provided can (usually) be accessed by all students in the subject, allowing everyone to benefit from the question and answer. Importantly, your identity will not be revealed to other students. Notice that this means, that even if you don’t want to ask a question, you can still view existing questions and answers.

Note that the Online Tutor is not designed to replace attendance at tutorials, but rather to complement the tutorial process. You should not use it as a substitute for reading or thought. General questions and simple questions that can be answered by referring to the prescribed readings will not usually be answered. Questions should be focussed and should show evidence that you have made some attempt to resolve the problem yourself. Detailed answers will not be provided about questions contained in upcoming Tutorials. Detailed answers for assignments will not be given. If you do not understand concepts generally, please see your tutor or lecturer during their consultation hours.

The Online Tutor will commence operation in the second week of the semester and will be open until just before the final exam in the subject. It can be accessed by going to “Online Tutor” tab in the subject’s menu on the LMS.

Welcome
Welcome to the subject. We think that you will find that the subject is both challenging and interesting.