

# HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY



**Department of Economics**

**ECON 4334**

**MONEY & BANKING  
(Spring, 2023-24)**

## **INSTRUCTOR**

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## **TEACHING ASSISTANT**

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## **CLASS SCHEDULE**

Lecture times are Monday 1:30pm–2:50pm and Friday 9:00am-10:20am in Room 2406 Lift 17-18 (76). Tutorials are Tuesday 6:00pm-6:50pm in LSK Building (51), Room 1033. Teaching mode is “face to face”.

## **COURSE DESCRIPTION**

This course deals with the structure and operations of commercial and central banks, money supply and demand, presenting both theory and practical applications. It examines supply of money, process of deposit creation in commercial banks, the tools and impact of monetary policy and the role of central banking in the banking industry. It also considers banking practices in an international context, including those of the US Federal Reserve, the People’s Bank of China, the ECB, and BOJ. Models of money and banks are studied in this course with rigorous micro foundations, providing theoretical and practical, real World insight into the behaviour on monetary aggregates, interest rates, inflation and economic activity.

## **ASSUMED KNOWLEDGE**

Pre-requisites for this course are ECON 3014 or ECON 3113 (Microeconomics) and ECON 2123 or ECON 3123 (Macroeconomics). Some background in calculus is assumed.

## LEARNING OUTCOMES

After completing this course, students should be able to understand, explain and identify the followings:

- (1) Basic concepts money, the monetary system and the role of central banks in the financial system. **(PILO 1, 3)**
- (2) The tools used by central banks in the conducting of monetary policy. **(PILO 1)**
- (3) The management of banking and other financial institutions and the interplay with central banks and the real economy. **(PILO 3)**
- (4) The role that central banks play in mitigating systemic risks in the economy via regulation, orthodox monetary policy and quantitative easing during episodes such as COVID-19, the Global Financial Crisis, the Asian Financial Crisis and other episodes. **(PILO 1, 2, 3)**
- (5) Multiple modelling frameworks such as ISLM, Aggregate Supply-Aggregate Demand, the Quantity theory of money, and open economy models and international finance. **(PILO 1)**

## RECOMMENDED LEARNING RESOURCES

Required Textbook: Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, 12<sup>th</sup> edition, Global edition, 2019 or other recent editions.

Reference: Bruce Champ, Scott Freeman and Joseph Haslag, *Modeling Monetary Economics*, 3<sup>rd</sup>, 4<sup>th</sup> or 5<sup>th</sup> Editions, Cambridge University Press: 2011, 2015, 2022 and Stephanie Schmitt-Grohe, Martin Uribe and Michael Woodford, *International Macroeconomics – A Modern Approach*, Princeton University Press, 2022. Readings: Announced on Canvas or during class, when required.

## HOMEWORK & TUTORIALS

Students must submit 4 assignments. Picked randomly, 2 will be graded, each worth 10% for a total of 20% of assessment. Non-submission of an assignment without a valid excuse and advance warning will lead to a loss of 5%, whether the assignment is graded or not. Problem sets will also be posted, to help students understand content and prepare for exams. Some of these problems will be discussed during tutorials. Tutorials will NOT be every week. There will be a selective number of tutorials throughout the term as needed. Problem sets are not for submission. Solutions will be provided for assignments and problem sets and the TA will go over some of these during tutorials. Tutorials may also include revision of selective material from class. Students will be required to make a statement about the use of ChatGPT in assignments. See the policy on ChatGPT in this course outline. No ChatGPT is permitted in individual assignments. **No late homework will be accepted!**

## CHAT GPT POLICY

ChatGPT is not permitted in this course. No use in exams or individual assignments is permitted. In your assignments and group project students are required to make a statement as to whether they used ChatGPT and if they did to declare how they done so. Violation of this policy will be considered an academic integrity breach with potentially serious consequences.

## ACADEMIC INTEGRITY POLICY

Honesty and integrity is central value in HKUST. Please be aware of the importance to maintain a high standard of honesty in assignments, group projects and examinations in this course. Please familiarize yourself to the university rules and the HKUST academic honor code by visiting following website: <http://www.ust.hk/vpao/integrity/>

## ASSESSMENT SCHEME

Task nature	Description	Weight
Final Exam	Examines all topics covered during the term	45%
Midterm Exam	Examines all topics up to Lecture 7	25%
Assignments	Four assignments to be submitted for assessment	20%
Class Participation	Engagement and constructive dialogue in class	10%

## EXAMINATIONS

The midterm exam will be held March 27 from 6:30pm in LSK 1103. The final will be held during the centralized examination period (May 17-29) with the exact details announced later in the semester in class. Examinations will consist of short-answer questions and multiple choice questions. There will NOT be make-up exams. If you miss the midterm exam for a valid, pre-approved reason, alternative assessment may be arranged. **Do not miss the final.** Any legitimate exam time conflicts must be documented in writing (can be sent by email) and submitted to me or the TA at least **4 weeks before the exam** for approval. Only serious medical or personal emergencies may be accepted as legitimate excuses for a missed exam. If you fail to attend an exam for medical reasons, you must present a doctor's note. If you miss an exam without a valid reason, then you will receive a zero. The mid-term exam is worth 25% and the final exam is worth 45% of your final grade.

## ATTENDANCE POLICY & CLASS PARTICIPATION

Class attendance will be recorded each week. Attendance may be used as an input for the class participation grade and in some circumstances may be a contributing factor in borderline grading decisions. Class participation is NOT a 1-1 mapping with attendance. While attendance may be a contributing factor, the constructive contribution to class discussion will be very influential in your class participation grade. Conversely, disruptive behavior will lead to a lower participation grade. Class participation is worth 10% of your total grade.

## COURSE SCHEDULE

This is a tentative schedule subject to adjustment based on class progress and course improvement.

<b>Lecture</b>	<b>Date</b>	<b>Topics<sup>1</sup></b>	<b>Reference<sup>2</sup></b>
1	Feb 2	<b>Motivation, Admin and Introduction to Central Banks</b>	Ch.14
2	Feb 5, Feb 9	<b>Bond Markets, Rates, &amp; Financial Markets</b>	Ch. 4-6
3	Feb 16	<b>Banking &amp; the Management of Financial Institutions</b>	Ch. 9
4	Feb 19	<b>Banking Regulation &amp; Financial Crises</b>	Ch. 10, 12
5	Feb 23, 26	<b>Money, Credit Creation Process &amp; Monetary System</b>	15
6	Mar 1, 4	<b>Monetary Growth, Inflation &amp; Central Bank Tool Box</b>	Ch. 16, 20
7	Mar 8	<b>Monetary Policy Strategy &amp; Tactics</b>	Ch. 16-17
8	Mar 11, 15	<b>Monetary Policy Transmission and Analysis</b>	Ch.22-23, 26
9	Mar 18, 22, 25	<b>Foreign Exchange Markets, Theories of Exchange Rates &amp; Monetary Policy</b>	Ch.18-19, 9**, 11**
	<i>Mar 27</i>	<i>Midterm Exam - LSK 1103, commencing 6:30pm</i>	<i>Lectures 1-7</i>
10	Apr 8, 12	<b>A Simple Overlapping Generations Model of Money</b>	Ch.1*
11	Apr 15, 19	<b>Inflation and Seignorage in a Microfounded Model</b>	Ch. 3*
12	Apr 22, 26	<b>OLG Model of Money with Capital</b>	Ch. 6*
13	Apr 29, May 3	<b>Liquidity and Financial Intermediation</b>	Ch. 7*
14	May 6, 10	<b>Bank Risk, the Great Recession &amp; Diamond-Dybvig</b>	Ch. 12*
	TBD <sup>3</sup>	<b>Final Exam (Lectures 1-13)</b>	

## ASSESSMENT TIMETABLE

<b>Date</b>	<b>Topics</b>	<b>Lecture Content</b>
Feb 9	<i>Assignment 1 Posted</i>	1-4
Feb 26	<b>Assignment 1 Deadline</b>	
Mar 4	<i>Assignment 2 Posted</i>	6-7
Mar 18	<b>Assignment 2 Deadline</b>	
Mar 27 <sup>4</sup>	<b>Midterm Exam</b>	
Apr 8	<i>Assignment 3 Posted</i>	9-10
Apr 22	<b>Assignment 3 Deadline</b>	
Apr 22	<i>Assignment 4 Posted</i>	11-12
May 6	<b>Assignment 4 Deadline</b>	
TBD <sup>5</sup>	<b>Final Exam</b>	1-13

<sup>1</sup> Additional references may be provided for certain topics on Canvas or in class

<sup>2</sup> Chapter references are to Mishkin unless with asterisk\*, which are for Champ, Freeman and Haslag, “Modeling Monetary Economies” (3<sup>rd</sup> Edition), or two \*\* for Schmitt-Grohe, Uribe.

<sup>3</sup> The final examination will be held during the centralized examination period, May 17-29.

<sup>4</sup> The exam will be held in LSK 1103 commencing at 6:30pm on March 27.

<sup>5</sup> Date to be confirmed but in the centralized exam period – May 17-29.