

Syllabus
HKUST Department of Economics
Economics 4334: Money and Banking
Fall 2024
Tuesday and Thursday, 10:30-11:50 PM

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Office Hours: Tuesday and Thursday 9:00-10:00 am

Course Description Increasingly, the monetary policy decisions of central banks around the world are seen as crucial for outcomes in global financial markets. In major economies, such as the USA, Japan, the EU, the UK and others, central banks focus on setting short-term interest rates. Their decisions to adjust interest rates have enormous and closely watched impacts on stock markets, bond markets, and banking markets. The first part of this course will focus on understanding how central banks use their powers, the macroeconomic theory that underlies the decision making of central banks and their effect on the economy and financial markets.

Though standard economic theory may imagine financial markets as operating according to rules of competitive supply and demand, in fact, distinct financial intermediaries such as banks are essential for the smooth operation of markets. In the second half of the class, we will focus on the economics and institutions of banking.

In both parts of the course, special attention will be paid to the particular institutions and history of Hong Kong's monetary and banking systems.

Course Objective The objective of the course will be to use the: 1) solid foundation in economic theory; and 2) mathematical and quantitative skills; that they have acquired in previous economics coursework to the analysis of the different tasks of central banking. The course will emphasize the pursuit of the following program-level academic and professional (AP) outcomes: AP4) Ability to apply economic concepts to explain real-world phenomena; AP5) Understanding of institutions and policies; and AP6) Potential to contribute to the development of Hong Kong as an international financial center.

Course Learning Outcomes The course will cover different facets of central banking policy. The students will be able to:

1. analyze and describe the long-term and short-term social goals of central bank policy makers. {AP4; AP5}
2. read central bank policy documents and evaluate the immediate impacts of central bank policy changes on interest rates and the economy. {AP5; AP6}
3. scrutinize commercial bank and regulatory documents and evaluate profitability and systemic financial stability {AP4; AP6}
4. use algebraic and geometric modeling to evaluate the effects of central bank policy on interest rates. {AP4; AP6}

Course Materials

This course will follow Frederic S. Mishkin “*The Economics of Money, Banking, and Financial Markets.*” Thirteenth Edition, Pearson.

Attendance is not mandatory for the course. However, mature behavior is a course requirement. Engaging in behavior that disturbs the class will result in a reduction in the course grade.

Course Requirements The grading will be based on homework assignments, an in-class mid-term exam, and a final exam. The dates are yet advisory and will be updated throughout. Students can work with 1 or 2 partners on homework.

Assignment	Assigned	Due	Grade	CLO-
1	September 17 th	September 24 th	5%	2
2	October 3 rd	October 10 th	5%	1
X	September 7 th	October 22 nd	5%	4
3	November 5 th	November 12 th	5%	3
4	November 19 th	November 26 th	5%	1,3

Exam	Date	Grade	
Mid-term	October 17 th est.	25%	1-2,4
Final (Cumulative)	TBA	50%	1-4

AI Policy: No use of AI for exams.

Course Outline

- Intro to Money (Ch. 3; Ch. 14.1, 14.3, 14.4; 15.1, 15.2)

Interest Rates and Monetary Policy

- Liquidity Theory of Interbank Rates (Ch. 4.1; Ch. 16.1, 16.2, 16.4; Ch. 17.8)
- Inflation Targeting and Policy Rates (4.3; 1.Appx; 20.1 Ch. 17.1, 17.3, 17.4, 17.5, 17.9)
- Term & Risk Structure of Interest Rates (Ch.6)

Banking

- Economics of Financial Intermediation (Ch. 8)
- Business of Banking (Ch. 9)
- Banking Regulation & Macprudential Instruments (Ch. 10)
- Banking Industry (Ch. 11)

If time, Advanced Topics in Monetary Policy & Financial Crisis

Criteria	A	B	C	D	F
Exams	Comprehensive understanding; insightful analysis; minimal errors.	Good understanding; clear analysis; some minor errors.	Basic understanding; limited analysis; several errors.	Poor understanding; unclear analysis; many errors.	Little to no understanding; fails to address key concepts.