UNIVERSITY OF VICTORIA  
ECONOMICS 305: Money and Banking

Instructor: Merwan H. Engineer  
Office: BEC 350  
Office Hours: Tues 3-5 pm (except Sept 17, Nov 5, Nov 12) & Wed 4-5pm (except Nov 13)  
CourseSpaces: 201909 ECON 305: A01 (11087)  
Web page:  http://web.uvic.ca/~menginee/econ305.html has additional articles and resources

Description: This course is an introduction to monetary and financial economics with special reference to the Canadian economy. The aim is further your understanding of the role of financial assets and institutions and how they affect the economy.

This is a challenging course! -- It covers money and banking and monetary policy. This involves learning different types of models and theories as well as lots of institutional facts. Working hard in this course will build a foundation for understanding key connections between the study of monetary theory and policy (ECON 104, 204, 306, 406), corporate finance (COM 240, ECON 454), industrial organization (ECON 310A), and asset pricing (ECON 435).


Note: We will use MyLab, so you’ll need to purchase access it separately if you use the 6th Canadian edition. There should be lots of hard copies of the 6th edition around. There do not appear to be many changes in the new edition, apart from updating some data and some renumbering (e.g. renumbering chapters 9 and 11). However, I will only refer to the 7th edition.

Grading*: Your final grade will be determined as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>MyLab</td>
<td>10%</td>
<td>usually weekly (starting end of 2nd week)</td>
</tr>
<tr>
<td>Assignments</td>
<td>5%</td>
<td>periodically</td>
</tr>
<tr>
<td>iClicker or Project</td>
<td>5%</td>
<td>iClicker one day a week; Project due Nov 29</td>
</tr>
<tr>
<td>Midterm 1**</td>
<td>20%</td>
<td>Oct 9, in class</td>
</tr>
<tr>
<td>Midterm 2</td>
<td>20%</td>
<td>Nov 6, in class</td>
</tr>
<tr>
<td>Final exam***</td>
<td>40%(60%)</td>
<td>see official exam schedule (to be Posted)</td>
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</tbody>
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* If there is a strike, this grading maybe modified.  
** A make-up for Midterm 1 will not be offered (see below for Academic Concession).  
*** To pass the course you must get at least a raw grade of 42% on the final examination.

Exams. If you do better on the Final than your worst midterm, the weight from that midterm will be shifted to the Final (and the Final will have a weight of 60%). The Final is 3 hours long and covers material from the entire course. The majority of weight is on multiple choice questions. There are also long analytical questions like those on the midterms. There may be a short essay. Each exam will have challenging long analytical questions:

- Midterm 1: present value pricing of assets, and/or term structure of interest rates
- Midterm 2: bank balance sheets and bankruptcy, and/or central banking
- Final: above (except for present value pricing of assets) and inflation
MyLab. The MyLab chapter quizzes offer ongoing review. The first MyLab assignment chapter quizzes are due Friday September 13 by 5:00pm. Subsequent chapter quizzes are usually due on Fridays at 5:00pm. You are responsible for tracking and identifying any problems with your completing the quizzes on time. If you miss a quiz you will receive zero on that quiz with no exceptions. To make it more forgiving, I will drop your lowest chapter mark (evaluated as a percentage) and allow you to replace the next two lowest marks by doing quizzes for 2 additional chapters (the material for which we may or may not cover in class). Thus, you have 3 chances to recover. It is easy to do well on MyLab quizzes.

Warning–skimming MyLab is insufficient to do well on the exam multiple choice questions! Warning–Data is held on US servers but Pearson says: “…there is no identifiable student data. Additionally, we adhere to all of the Canadian and British Columbia privacy laws.” The student agreement should flag this and provide an alternative.

iClicker questions and/or Project. In one class each week two surprise iClicker questions will be asked. One question will be given at the beginning of class and relate to the material in the previous class; the other question will relate to material covered in the class. I will take the best 18 answers from 22 questions. If you get 18 out of 18 then you get the full 5 marks for this course component. iClicker questions, but not answers, will be posted prior to exams. Questioning begins week 2.

The Project is on microcredit, see the posting at the top of CourseSpaces. It involves understanding asymmetric information, a topic found in Ch. 2 & 8. If know about asymmetric information you could get started early. There is a bonuses for group work and handing it in early. Alternatively, you can do an independent project on a topic of your interest.

If you attempt at least 18 iClickers questions and also receive a grade of 3.75 or greater on the Project, I will take the highest mark and give you an additional 2 bonus marks!

Please participate! -- 2 bonus marks for 4 or more contributions (questions/comments).

Course letter grade - numerical score (%) equivalencies used at UVic are as follows:

<table>
<thead>
<tr>
<th>A+</th>
<th>A</th>
<th>A-</th>
<th>B+</th>
<th>B</th>
<th>B-</th>
<th>C+</th>
<th>C</th>
<th>D</th>
<th>F or N</th>
</tr>
</thead>
<tbody>
<tr>
<td>90+</td>
<td>85-89</td>
<td>80-84</td>
<td>77-79</td>
<td>73-76</td>
<td>70-72</td>
<td>65-69</td>
<td>60-64</td>
<td>50-59</td>
<td>0-49</td>
</tr>
</tbody>
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Policies:

See Department Course policies regarding academic integrity, attendance, academic concessions, grading, inclusivity and diversity, students with a disability, travel plans, waitlists, etc..

Adds/Drops. Students are responsible for checking their own records and registration status. Since this course is waitlisted and essential to students who want to do the Finance Option, all students are required to complete the Mandatory Exercise on CourseSpaces in order to determine which students have an active interest in taking the course.

- Students on the class list as well as on the waitlist who fail to pass the Mandatory Exercise by Sept 11, 5:00pm may be dropped from the course. If you are dropped, you can always try to enroll in the course again but you lose your priority if there is a waitlist. You are responsible for knowing your registration status.
Examinations:
1. Student I.D. will be required.
2. Calculators are allowed, including financial calculators; no other electronic devices including cell phones are allowed.
3. You may be allowed a short **handwritten** crib sheet for exams; details to follow.
4. Dictionaries are not permitted, except with the prior approval of the instructor.

**Academic Concession.** Consideration for missed midterms or other tested material will be given only on the basis of documented illness, accident or family affliction, and for no other reasons. If you miss a midterm without providing documentation within 10 days, I will assume that you simply chose not to write the midterm. Only with documentation given for both midterms will I provide a make-up for Midterm 2 (the weight for Midterm 1 automatically goes on the final). In the event of a missed final exam, students are advised to follow the procedures in the University Calendar.

**Courtesy.** Please try to make it to class on time, and I’ll endeavor to not run over time by more than a minute. Those who are late more than twice without prior consultation with me may be asked to leave the class. If you need to leave the class early, please mention it to me and sit by an aisle towards the back.

**Electronic devices.** The following article adds to the literature which finds that classroom laptop/tablet/phone use not only dramatically lowers education outcomes for users but also for those around them: [NY Times article](http://nytimes.com)! Research strongly suggests that old fashion pen and paper is on average a much better way to learn: [NPR article](http://npr.org).

Since it seems that laptops impose a large **negative externality** on others, please do not use laptops in class other than when indicated (or unless you have prior approval). Instead, please make hard copies of the text(s) notes. Please see [Recommended printing 2 or 4 slides per page](http://www.uvic.ca).

**E-mail correspondence.** “Emails should be limited to critical matters, such as inability to attend exams, or prolonged illness, and should include the course name and number in the subject line. Questions on course material should be asked during office hours or in class.

The standard format for writing a letter must be used. This means it should start off with a salutation (e.g. Dear...), include full sentences and conclude with a signature that includes your full name and V#. Text message lingo should not be used.”

**Course Experience Survey (CES).** I’ve put considerable thought into designing this course and value your feedback in helping me improve it. Towards the end of term, you will have the opportunity to anonymously complete the CES. The survey is vital to providing feedback to me regarding the course and my teaching, as well as to help the department improve the overall program for students in the future.

If you do not receive an email invitation to complete the CES, you can go directly to [http://ces.uvic.ca](http://ces.uvic.ca). I will remind you nearer the time, but please be thinking about this important activity, especially the following three questions, during the course.

1. What strengths did your instructor demonstrate that helped you learn in this course?
2. Please provide specific suggestions as to how the instructor could have helped you learn more effectively.
3. Please provide specific suggestions as to how this course could be improved.”
SYLLABUS

The following outline of topics and readings may be updated on CourseSpaces. Chapter references refer to the textbook. Other notes and references are indicated by italics. Additional notes and articles will be posted on the CourseSpaces as the term progresses. I reserve the right to introduce other topics e.g. virtual currencies or exchange rates; this gives us flexibility to address current events (including the possibility of a strike).

Part 1 Money
1. *Evolution of Money* (handout); *History of the Canadian Dollar*
2. What is Money? (Ch. 3)
3. Why Study ... (Ch. 1; Why Study Money and Monetary Policy)

Part 2 Financial Markets
1. Why Study ... (Ch. 1 up to: Why Study Money and Monetary Policy)
2. An Overview ... (Ch. 2 up to: Function of Financial Intermediates: Indirect Finance)
3. The Meaning of Interest Rates (Ch. 4); *Level and Rates*
4. The Behaviour of Interest Rates (Ch. 5)
5. The Risk and Term Structure of Interest Rates (Ch. 6); *Yields Illustrated*
6. Stock Prices and Discounted Dividend Model (Ch. 7)

Parts 3&4 Financial Institutions, and The Management of Financial Institutions
1. An Overview ... (Ch. 2; from Function of Financial Intermediates ...)
2. An Economic Analysis of Financial Structure (Ch. 8)
3. Banking and the Management of Financial Institutions (Ch. 13)
4. Financial Crisis (Ch. 11); *Sub-prime Primer; Meltdown; Money, Power and Wall Street* (Episode 4, minutes 28-44)

Part 5 Central Banking and the Conduct of Monetary Policy
1. Central Banks and the Bank of Canada (Ch. 14)
2. The Money Supply Process (Ch. 15)
3. Tools of Monetary Policy (Ch. 16)
4. The Conduct of Monetary Policy: Strategy and Tactics (Ch. 17)

Part 6 Monetary Theory (and Financial Crisis)
1. Quantity Theory, Inflation and the Demand for Money (Ch. 20)
   *Aggregate Output, the Price Level, and Inflation* (Ref. Ch. 1 Appendix); *Level and Rates Money, Inflation and the Quantity Theory of Money* (Ref. Ch. 20)
2. “Great Depression” in the text (especially Ch. 15)
3. Financial Crisis (Ch. 11); *Financial 9/11*?