

Money, Credit, and Banking (Econ 40360)

University of Notre Dame

Spring 2019

Professor Michael Pries

Tues/Thurs 9:30am-10:45am, 109 O'Shaughnessy Hall (Section 01)

Tues/Thurs 11:00am-12:15pm, 109 O'Shaughnessy Hall (Section 02)

Overview

Money is something we use every day, yet it is something that not a lot of people understand very well. Money has been described as the grease that lubricates the economy—that makes things flow smoothly. As this metaphor suggests, money facilitates the millions (billions?) of transactions that take place every day. We will examine the various functions that money serves, and will consider the properties that make different forms of money either more or less effective at facilitating exchange. Along the way, we will consider the many different monetary systems—e.g. the stone “wheels” of the island of Yap, the gold standard, modern fiat currencies—that have existed throughout history, both throughout the world and in the U.S.

The aggregate price level changes as the value of money changes. If money loses value, prices that are quoted in units of money will rise: inflation. We will explore how the value of money is determined, the causes of inflation (and of hyperinflation), the costs of inflation, and how large inflations can be tamed.

As we will discover, banks play an important role in the modern monetary system. In a broad sense, they are just one type of intermediary among many others (investment banks, insurance companies, etc.). Yet banks are distinct from other intermediaries in important ways. In particular, on the liability side of the balance sheet, the demand deposits that they issue serve as an important type of money that we use to carry out transactions. On the asset side of the balance sheet, they are an important provider of credit. We will explore why credit instruments (debt contracts) take the form that they do and the important role that banks play as monitors of the companies to which they provide credit.

Because banks issue demand deposits that can be withdrawn on demand, while at the same time holding longer-term debt instruments on the asset side of the balance sheet, banks are prone to runs, or “panics.” We will learn about the famous Diamond-Dybvig model of bank runs, explore a few famous bank runs from history, and consider the different policy options for reducing the likelihood of future bank runs.

Finally, we will consider what money and banks might look like in the future. Is a cashless economy possible? Might crypto-currencies become the dominant form of money? Would “narrow banks” be a better form of banking?

Contact Information & Office Hours

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Email:	mpries@nd.edu
Phone:	574-631-3046
Website:	http://sites.nd.edu/mpries/
Office Hours:	Tuesdays between 1:30 p.m. and 3:30 p.m. If this time is not convenient, you may request a different time to meet with me.
Sakai:	I will use a Sakai page to disseminate problem sets, powerpoints, and readings. I will also post there a course outline with corresponding readings that will be updated as the course evolves. I will also use the Sakai gradebook feature to record grades.
Communication:	<i>I to you:</i> When I need to communicate with the whole class about something, I will post an “Announcement” in Sakai, and will select the option that allows an email to be sent to the entire class to notify of the announcement. Of course, all important announcements will be made in class as well, but you should check your email/Sakai regularly throughout the semester to keep informed about reminders and clarifications. <i>You to me:</i> Email is the best way for you to contact me, either with questions about my lectures, questions about problem sets, or questions about anything else in the class. I generally respond promptly.

Textbooks / Readings

We will read parts of the following two (relatively cheap) books. I have provide links to Amazon (I didn't request copies at the ND bookstore), but you might also find used copies on other book retailer websites.

Ferguson, Niall. [*The Ascent of Money: a Financial History of the World*](#). 2008. Penguin Books: New York, NY.

Friedman, Milton. [*Money Mischief: Episodes on Monetary History*](#). 1992. Harcourt Brace Jovanovic: New York, NY.

For other readings throughout the semester, I will provide links to online versions or I will upload a pdf/copy onto Sakai.

Requirements

Class Participation

Attendance is mandatory. Unless you have a legitimate excuse, you must attend class, arrive on time, and not leave early. Before coming to class, you are required to have read the assigned material so that you can respond to questions related to the readings. My lectures will be much more informative if you are already familiar with the material.

Problem Sets and/or quizzes

There will be six problem sets and/or quizzes—two before each exam. Some sections of the class do not necessarily lend themselves to homework problems, so I may instead give a brief (10 minutes?) quiz at the beginning of class for those sections. They will not necessarily be announced in advance. For problem sets, I will try to give them to you about one week before they are due.

You may work (indeed, I encourage you to do so) in groups of up to four students on the problem sets. If you work in a group, you can turn in one jointly written homework, but please make sure that the names of all group members legibly appear on the first page of the assignment.

Together the problem sets and quizzes will count for 15% of your final grade. You will have the opportunity to drop your lowest score, so that the remaining five will each count for 3% of your final grade.

Midterm Exams

There will be two midterm exams (dates/times/locations listed below). Because there are two sections of this course, we will hold a joint “departmental exam,” which means that the exams will be held outside the normal class time. Each midterm will count for 25% of the final grade.

Final Exam

The final exam will count for 35% of the final grade. In accordance with the University exam schedule, it will be given Friday, May 10th, from 1:45pm to 3:45pm in a location to be named later. If you have a conflict with another final exam, please consult with me as early as possible, and we will make arrangements in accord with university guidelines.

Class Policies

Honor Code

Notre Dame students are expected to abide by Academic Code of Honor Pledge: “As a member of the Notre Dame community, I will not participate in or tolerate academic dishonesty.” Students must not give or receive aid on exams. This includes, but is not limited to, viewing the exams of others, sharing answers with others, and making unauthorized use of books or notes while taking the exam.

Make-up Exams

You should make *every* effort to avoid needing a make-up exam. When a make-up exam is warranted (according to university guidelines), you must notify me of your excuse *without delay*.

If you also miss the make-up midterm exam (again for legitimate causes), then the weight that would have been given to that exam will be assigned to the weight used for your final exam.

If you miss one of the exams and are ineligible for a make-up exam, you will receive a zero score. In this case, you cannot choose to have the other exam weighted more heavily in order to adjust for the missed exam.

Extra Credit

There will be no opportunities for extra credit.

Re-grades

If you feel that your exam or problem set was incorrectly or unfairly graded, you have one week after the class in which it is returned to submit it for a re-grade. However, when an exam or problem set is turned in for a re-grade, the entire exam will be re-graded and the scores for individual questions can be either *increased or decreased*.

Course Outline

See Sakai for the course outline (or follow [this link](#)), which will be updated throughout the semester.

Important Dates

Jan 15	First day of class
Feb 14	First midterm (8:00-9:15am, 101 Jordan Hall of Science)
Mar 11-15	Spring Break
Apr 2	Second midterm (8:00-9:15am, 101 Jordan Hall of Science)
Apr 30	Last day of class
May 10	Final exam (1:45-3:45pm, location TBA)