

Department of Economics  
Lehigh University

Professor O'Brien  
Spring 2008

Economics 129: Money, Banking, and Financial Markets

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Texts: *Required:* Stephen G. Cecchetti, *Money and Banking, and Financial Markets*, 2nd ed., McGraw-Hill Irwin, 2008  
*Recommended:* *Study Guide*, 2nd ed.

A subscription to the *Wall Street Journal* is also recommended. Sign-up sheets will be circulated in lecture and recitation during the first week of class. If you would like to sign up, please fill out the form and *return it to me or your TA*. The *Wall Street Journal* will send you a bill after your subscription has begun. You will receive both a print subscription and an online subscription. Note that some of the data needed for Market Watch will only be available in the online edition.

Grading:	Midterm I	Wed February 6	20 points
	Midterm II	Wed March 19	20 points
	Midterm III	Wed April 16	20 points
	Recitation and attendance		5 points
	Final		35 points

*Midterms:* The midterms will be given in class on the dates listed above. They will consist of a combination of problems, short essays, and multiple choice questions. Midterms from earlier semesters are posted to BlackBoard. Keep in mind that the topics covered in lecture vary somewhat from semester to semester, so the exams from earlier semesters may not be a perfect guide to what will be asked this semester. There will be no makeups given for the midterms. If one midterm is missed with an excused absence, then the value of the final will be increased to 55 points. The policy for appealing the grading of the midterms is as follows: Make a photocopy of your answer and write out a brief explanation of why you believe that your answer merited more points. All grade appeals must be received within seven days of the midterm being returned, and will be held until the end of the semester.

*Alternative grade:* You may choose to have your grade from the three midterms as your course grade. In that case, you would not take the final. In order to choose this option, you *must* have taken all three midterms. Grades from quick quizzes and recitation and attendance will *not* be taken into account if you choose this option.

*Quick quizzes:* Brief unannounced quizzes may be given in lecture several times during the semester. Each quiz is worth 0.5 point. The points will be added to your point total to determine your grade.

*Final:* The final exam will be comprehensive and will consist of 70 multiple choice questions. *Note that the final exam might be given as late as May 7; make your plans for the summer accordingly.* If you are unable to take the final at the designated time, you must follow the procedures in the *Lehigh Student Handbook*. No makeup finals will be given except on the official makeup day as determined by the Registrar.

*Market Watch Requirement:* Students are expected to keep track of important economic and financial variables through the use of “Market Watch.” *Four times during the semester (that is, during four different weeks), you must email your TA with a spreadsheet with the correct values for all of the Market Watch variables filled in up to that date.* Failure to do this will result in your receiving a lower grade under recitation and attendance. In addition, all exams will have questions relating to the current levels and values of these variables. The list of variables is posted to BlackBoard.

*Problem Sets:* Several problem sets will be posted to the course page. They are intended to help you to focus on the most important material. You should try to work all of the questions on the problem sets before they are gone over in recitation. Keep in mind that the problem sets are meant to be *examples* of questions you might expect to find on the midterms and final and are not meant to represent every possible question you might be asked on an exam. In other words, you are responsible for all of the material gone over in class, *even if no question on the problem sets pertains to that material.*

*Calculator policy:* Only basic five function, single memory cell model calculators (such as the Sharp 243) may be used on examinations. Calculators of this type are available at the bookstore for \$4 to \$5.

*Accommodations for Students with Disabilities:* If you have a disability for which you are or may be requesting accommodations, please contact both your instructor and the Office of Academic Support Services, University Center 212 (610-758-4152) as early as possible in the semester. You must have documentation from the Academic Support Services office before accommodations can be granted.

*Academic Integrity:* Lehigh University Student Senate, Statement of Academic Integrity. “We, the Lehigh University Student Senate, as the standing representative body of all undergraduates, reaffirm the duty and obligation of the students to meet and uphold the highest principles and values of personal, moral and ethical conduct. As partners in our educational community, both students and faculty share the responsibility for promoting and helping to ensure an environment of academic integrity. As such, each student is expected to complete all academic course work in accordance to the standards set forth by the faculty and in compliance with the university’s Code of Conduct.”

*Objective:* The objective of this course is to introduce you to the basic tools for understanding the financial system of the United States. Detailed learning objectives are listed on page 4.

### **Course Topics**

Definitions and Basics	Chs. 1-3
Assets, Interest Rates, and Rates of Return	Chs. 4-7
The Stock Market and the Markets for Financial Derivatives	Chs. 8-9
Banks and How They Work	Chs. 11-14
The Federal Reserve, the Creation of Money, and Monetary Policy	Chs. 15-18
The Market for Foreign Exchange	Ch. 10, 19
Monetary Economics	Chs. 20-23

## Learning Objectives

By the end of this course, you should be able to:

1. Explain the functions of money and the role of money in the economy.
2. Understand the arithmetic of interest rates; demonstrate how the yield to maturity is calculated and what the difference is between yields and returns.
3. Use supply and demand analysis to show how interest rates are determined for financial instruments.
4. Describe the structure of the banking industry.
5. Demonstrate the essentials of the money supply process, including commercial bank deposit creation and the structure and functions of the Federal Reserve System.
6. Use the tools of monetary control to explain how the Federal Reserve influences both domestic and international financial markets and the economy.
7. Explain the importance of money in macroeconomic theory.