COURSE DESCRIPTION:
This course examines the evolving architecture of the international financial system. It will begin with a discussion of the nature of international banking, including the role of shadow banks. We will then proceed to discuss central banking, with reference to the structure of the Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan, and possibly others. Next comes regulation, and finally, we will examine the fragility of the financial system and why it is prone to crises.

The course is discussion based. Attendance is mandatory and everyone is expected to participate.

LEARNING GOALS:
- Understanding the economics of financial intermediation.
- Appreciating the role of central banks in the financial system.
- Understanding how central banks operate.
- Understanding the building blocks of a resilient financial system.
- Recognizing the sources of financial fragility and financial crises.
- Communicating in writing about financial system issues.

READINGS
The primary readings for the course are posts on www.moneyandbanking.com, chapters from Cecchetti and Schoenholtz, Money, Banking and Financial Markets 5e and assorted papers. Links to blog posts and articles are embedded in the syllabus. Relevant portions of chapters of the book in pdf are posted on the website – these are password protected and cannot be printed. You can also rent or purchase the book on Amazon. If you do purchase or rent the book, please be sure to get the 5th edition. The password for viewing the chapters is Fin252_Spring_2018.

REQUIREMENTS AND EVALUATION:
You are required to attend all classes, participate actively in class discussions, familiarize yourself with (and follow!) the policies on academic integrity (see below). You should also keep up with the financial news, and come to class ready to discuss relevant current events.

Your grade will be based on class participation, homework and a project.
1. Class participation (30%):
Class is interactive and I expect everyone to participate. Participation is graded on two components: attendance and comments during the discussion. Because everyone is assumed to have prepared for class, I will cold call on most of you at some point. To give some sense of the scale, if you attend the class faithfully but are largely silent during our discussions, you can expect to get a C for participation. A B student is expected to occasionally make good comments. To receive an A, you will need to routinely make good comments. Students who make useless comments will be penalized, as will students who miss class, come in late, or leave early.

You cannot get any credit for participation until you have completed and turned in your student information sheet that is available on Latte.

2. Written responses to questions for discussion & questions for guest speakers (30%):
To get as much out of the class as possible, it is important that prepare.

For the 7 class meetings with assigned readings and discussion questions that are starred in the schedule below, please write short answers to two of the questions for discussion. Your answers should be no more than 200 words each. The assignments are due at 5pm (the beginning of class) on Jan 17, Jan 18, Jan 24, Jan 29, Feb 7, Feb 14 and Feb 26.

For the two guest speakers on Feb 22 and Feb 12, the assignment is to construct 3 questions you would ask the speaker. The questions are due at 5pm on the day of the class.

3. Course Project (40%):
Choose from one of two possible topics:
1) An essay on a financial crisis that occurred in the period 1980 to 2005.
2) An evaluation of current monetary policy in a major economy/currency area.

1) Financial crisis project:

Choose one of the following crises:

1. Argentina 2001-2003
2. Brazil 1990-1994
4. Indonesia 1997-2001
5. Israel 1977-1977
10. Turkey 2000-2001

Write a paper of not more than 2000 words (excluding tables and charts) that describes the evolution of its financial system in the country, the conditions that led to the crisis, and the response of the central bank, the regulatory authorities and the fiscal policymakers to the crisis. In the essay, be sure to describe the structure of the country’s financial system before the crisis,
and what happened to it after the crisis. And, be sure to discuss the lessons for the country that you choose and more generally from the experience.

2) Current monetary policy evaluation project:

Choose from the Federal Reserve, the ECB, or the Bank of Japan and write an evaluation of current monetary policy that is not more than 2000 words (excluding tables and charts). Your paper will include:

- A brief description of the evolution of the macroeconomic environment and of monetary policy over at least the past decade.
- A description of current policy settings and their justification.
- A description of the challenges facing monetary policymakers going forward and how you believe they should act to meet them over the next year or so.

The final assignment is due at 5pm EST Monday March 5, 2017.

---

### Workload Expectation

Success in this half-semester two-credit course is based on the expectation that students will spend a minimum of 9 hours of study time per week in preparation for class (readings, papers, discussion sections, preparation for exams, etc.).

---

### Academic Integrity

You are expected to be honest in all of your academic work. Please consult Brandeis University Rights and Responsibilities for all policies and procedures related to academic integrity. Students may be required to submit work to TurnItIn.com software to verify originality. Allegations of alleged academic dishonesty will be forwarded to the Director of Academic Integrity. Sanctions for academic dishonesty can include failing grades and/or suspension from the university. Citation and research assistance can be found at LTS - Library guides.

---

### Disabilities

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.
**MEETING SCHEDULE**

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>January 10</td>
<td><strong>BANKING AND FINANCE</strong></td>
</tr>
<tr>
<td>2</td>
<td>January 17</td>
<td><strong>BANKING AND FINANCE (CONT.)</strong></td>
</tr>
<tr>
<td>3</td>
<td>January 18</td>
<td><strong>CENTRAL BANKING: BASICS</strong></td>
</tr>
<tr>
<td>4</td>
<td>January 22</td>
<td><strong>SPEAKER: DENNIS LOCKHART</strong></td>
</tr>
<tr>
<td>5</td>
<td>January 24</td>
<td><strong>CENTRAL BANKING: OPERATIONS</strong></td>
</tr>
<tr>
<td>6</td>
<td>January 29</td>
<td><strong>CENTRAL BANKING: CONVENTIONAL &amp; UNCONVENTIONAL POLICY</strong></td>
</tr>
<tr>
<td>7</td>
<td>January 31</td>
<td><strong>CENTRAL BANKING: ECB POLICY</strong></td>
</tr>
<tr>
<td>8</td>
<td>February 5</td>
<td><strong>CENTRAL BANKING: FED POLICY</strong></td>
</tr>
<tr>
<td>9</td>
<td>February 7</td>
<td><strong>FINANCIAL REGULATION</strong></td>
</tr>
<tr>
<td>10</td>
<td>February 12</td>
<td><strong>SPEAKER: MORENO BERTOLDI</strong></td>
</tr>
<tr>
<td>11</td>
<td>February 14</td>
<td><strong>FINANCIAL REGULATION (CONT.)</strong></td>
</tr>
<tr>
<td>12</td>
<td>February 26</td>
<td><strong>FINANCIAL CRISES: ORIGINS</strong></td>
</tr>
<tr>
<td>13</td>
<td>February 28</td>
<td><strong>FINANCIAL CRISES: POLICIES</strong></td>
</tr>
</tbody>
</table>

* Written answers to questions for discussion to be handed in at the beginning of class.
Readings and Questions for Discussion:

1. Banking and Finance

Questions for Discussion:
- What is a bank and what does it do?
- Why is debt finance so much more common than equity?
- Why do some countries have so many more banks than others?

Money and Banking Blog:
- Moral hazard: a primer
- Adverse selection: a primer
- Banking the masses
- The even cloudier future of peer-to-peer lending

Readings:
Cecchetti and Schoenholtz Money, Banking and Financial Markets, Chapters 11 and 12.

2. Banking and Finance (cont.)

Questions for Discussion*:
- What is a shadow bank?
- Provide two examples of shadow banking activities.
- When should we be worried about shadow banks?

Money and Banking Blog:
- A primer on securities lending
- The yin and yang of shadow banking in China

Readings:

3. Central Banking I

Questions for Discussion*:
- What do central banks do?
- What are the objectives of a central bank?
- Should central banks issue digital currency?

Money and Banking Blog:
- Fintech, central banking and digital currency
- Monetary policy target regimes

Readings:
Cecchetti and Schoenholtz, Chapters 15.
4. **Guest Speaker**

**Mr Dennis Lockhart**  
**Former President and CEO**  
**Federal Reserve Bank of Atlanta**

5. **Central Banking II**

**Questions for Discussion**:  
- What is the right level for the inflation target?  
- How does open market operations work?  
- What is the difference between monetary and fiscal policy?

**Money and Banking Blog**:  
- [The case for a higher inflation target gets stronger](#)  
- [A primer on helicopter money](#)

**Readings**:  
Cecchetti and Schoenholtz, Chapters 17 (pages 453-463).

6. **Central Banking III**

**Questions for Discussion**:  
- What are central banks’ conventional policy tools?  
- What is unconventional monetary policy?  
- How does monetary policy influence the real economy?

**Money and Banking Blog**:  
- [Unconventional monetary policy through the Fed’s rear-view mirror](#)  
- [Negative nominal interest rates (again)](#)

**Readings**:  
Cecchetti and Schoenholtz, Chapters 18

7. **Central Banking: ECB Policy**

**Questions for Discussion**:  
- What are the benefits of a monetary union?  
- What is the ECB’s ultimate objective?  
- What is the rationale for imposing the Maastricht Treaty’s conditions?

**Money and Banking Blog**:  
- [ECB and Fed: Separated at Birth?](#)  
- [ECB paddles both ways in the Rubicon](#)

**Readings**:  
Kashyap, “The European Central Bank: Out of Ammo?” case to be distributed in class.

**Additional Readings**:  
Cecchetti and Schoenholtz, Chapters 16 (pg. 438-446)
8. **Central Banking: Federal Reserve Policy**

**Questions for Discussion:**
- What is the structure of the Federal Reserve?
- How does the Fed set monetary policy?
- Is the dual mandate justified?

**Money and Banking Blog:**
- The FOMC's prudent caution
- The Fed's balance sheet and the stance of monetary policy

**Readings:**
Cecchetti and Schoenholtz, Chapters 16 (pg. 423-437)

9. **Financial Regulation**

**Questions for Discussion***:
- Why do we regulate financial intermediaries?
- What is the role of capital requirements?
- What is the role of liquidity requirements?

**Money and Banking Blog**
- A primer on bank capital
- Narrow banks won’t stop runs
- Form vs function: regulating money market funds

**Readings:**
Cecchetti and Schoenholtz, Chapter 14

10. **Guest Speaker**

DR MORENO BEROLDI  
SPECIAL ADVISOR  
DELEGATION OF THE EUROPEAN UNION TO THE UNITED STATES.

11. **Financial Regulation (Cont.)**

**Questions for Discussion***:
- What is the difference between micro-prudential and macro-prudential regulation?
- What is the role of international cooperation in capital regulation?

**Money and Banking Blog**
- Dodd Frank five years later

**Readings:**
Hanson, Kashyap and Stein, “A macroprudential approach to financial regulation”
Cecchetti and Tucker, “Is there macroprudential policy without international cooperation?”
12. **FINANCIAL CRISES: ORIGINS**

**QUESTIONS FOR DISCUSSION***:
- What were the main causes of the 2007-09 crisis?
- Who were the key players in the crisis?

**MONEY AND BANKING BLOG**:
- Leverage and risk
- The scandal is what's legal

**READINGS**:

13. **FINANCIAL CRISES: POLICIES**

**QUESTIONS FOR DISCUSSION***:
- Why are financial crises so prevalent in history?
- Why is the Gold Standard viewed as a villain?

**MONEY AND BANKING BLOG**
- Monetary Policy: A Lesson Learned
- Why the Gold Standard is a very bad idea

**READINGS**: