Course description: This course provides an overview of the financial system and its place in the economy. Topics include (1) the monetary and payments systems, (2) financial instruments and their pricing, (3) the functions of financial markets and financial intermediaries in our economy, (4) the role of governments and central banks in supporting the financial system, and (5) the conduct of monetary policy and its macroeconomic effects. Special emphasis will be placed on what we can learn from recent events relating to the financial system, its regulation, and central banking. We will also examine some of the potential challenges facing the Federal Reserve System moving forward.

Learning Goals: This course has five broad goals. (1) By the end of the semester, every student should have a better understanding of the role the financial system and financial prices play in allocating resources in developed economies. (2) Every student should be familiar with current economic thinking on what explains the division of labor between financial markets and financial intermediaries. (3) Every student should be able to explain some of the dynamics at work in financial crises. (4) Every student should have an enhanced understanding of the channels through which monetary policy affects the economy. (5) Every student should have a greater knowledge of financial instruments and institutions, e.g., bank checks, commercial paper, commercial banks, the Federal Reserve System.

Meeting times: MWTh 10:00-10:50
Classroom: TBD

Office hours: MWTh 2:30-4:00 P.M.

Prerequisites: Macroeconomic Theory (Economics 82b) and Statistics for Economic Analysis (Economics 83a).


Supplementary materials will be posted in LATTE on a topic-by-topic basis. You are also encouraged to keep up with current economic and financial events by reading The New York Times, The Economist, the Financial Times, The Wall Street Journal, or similar publications.
Grading: Grades will be assigned according to a curve of the raw course scores computed using the following formula:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem sets</td>
<td>15%</td>
</tr>
<tr>
<td>Exam I</td>
<td>10%</td>
</tr>
<tr>
<td>Exam II</td>
<td>25%</td>
</tr>
<tr>
<td>Exam III</td>
<td>25%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>25%</td>
</tr>
</tbody>
</table>

Class participation can also influence your grade. To help you track your progress over the semester, I will post a rough grade distribution for each midterm in LATTE.

Exams: The topics and chapters covered on each of the exams are given in the course outline below. The exams may include any material from class, the text, the homework, and course supplements. Sample exams will be posted in LATTE.

Homework: Homework assignments and due dates will be posted in LATTE.

“Extra-credit” assignments: Please note that I will not give any “extra-credit” assignments.

Policies:

Attendance: Class attendance is required and will be monitored over the semester.

Excused absences: If there is an emergency in your family or you experience health problems during the semester, please contact your advisor at Academic Services. Your advisor will then inform me, along with your other professors. At an appropriate time, we will determine what to do about the work you missed.

Devices: You are free to use your devices in class, but only to view the lecture slides, take notes, or look up other material related to the lecture. No email, texting, chatting, games, social media, or other entertainment.

Information dissemination: Course information will be posted in LATTE. You are responsible for checking the LATTE course page frequently. Any significant changes to our schedule will be announced via email.

Contacting me: In addition to my office hours, the best way to contact me is via email. I check my email regularly. I do not routinely check my office voicemail when I am away from campus so I cannot guarantee a timely response to voicemail messages.

Accommodations: 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. Such accommodations cannot be provided retroactively.

Academic integrity: You are expected to be familiar with and to follow the University’s policies on academic integrity (see http://www.brandeis.edu/studentaffairs/srcs/ai/index.html). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.
# COURSE OUTLINE

## I. The Monetary and Payment Systems

- **1/12:** Introduction and Course Organization
  - chs. 1 & 2
- **1/14:** Money: Definitions and Concepts
  - ch. 3
- **1/15 & 21:** Retail Payments
- **1/22 & 26:** Wholesale Payments
  - ch. 3
- **1/28 & 29:** The Federal Reserve and Wholesale Payments
  - ch. 3

### 2/9:
Exam I covering Section I

## II. Financial Instruments and their Pricing

- **2/2 & 4:** Financial Instruments
  - ch. 2
- **2/5 & 11:** Security Valuation and Analysis
  - chs. 4 & 7, pp. 141-44
- **2/12:** The Determinants of Interest Rates
  - ch. 5
- **2/23 & 25:** Explaining Variation in Security Returns
  - ch. 6
- **2/26:** The Term Structure of Interest Rates
  - ch. 6
- **3/2 & 4:** Derivative Securities

### 3/11:
Exam II covering Section II

## III. Financial Intermediaries

- **3/5 & 9:** Why Financial Intermediaries Exist
  - chs. 2 & 8
- **3/12, 16 & 18:** Financial Crises
  - ch. 9
- **3/19 & 23:** Depository Intermediaries
  - ch. 10
- **3/25 & 26:** Regulation
  - chs. 11 & 12

### 4/1:
Exam III covering Section III

## IV. Central Banking

- **3/30:** The Fed and Other Central Banks
  - ch. 13
- **4/2 & 13:** The Money Supply Process
  - ch. 14
- **4/15, 16 & 20:** The Implementation of Monetary Policy
  - chs. 15 & 16
- **4/22 & 23:** The Monetary Transmission Mechanism
  - ch. 25
- **4/27:** Current Challenges of Monetary Policy

### TBD:
Final Exam covering Section IV