

Economics 423 - Financial Markets and Economic Fluctuations

Fall, 2006 (Section 1, Tuesday and Thursday, 9:30-10:45)

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Team Teaching: Professors Richard Froyen and Michael Salemi team teach this course. Froyen teaches classes 1-14 and Salemi teaches 15-28.

Course Web Page: www.unc.edu/~salemi/Econ423.htm

Course Goals: By the end of the course students should be able to use micro, macro, and financial market concepts to address a number of important questions concerning the operation and regulation of financial markets and monetary policy. Students will discuss articles from the literature, solve problem sets, participate in simulations, and complete and discuss exercises that apply course concepts to policy questions. Topics and questions include:

1. What is money?
2. What is the interest rate of a bond? How does the interest rate of a bond differ from its return?
3. How does the Federal Reserve conduct monetary policy?
4. What should central banks do? Should the Fed move to inflation targeting?
5. How does risk affects the prices of financial assets.
6. Why long maturity interest rates generally have higher annual yields than short maturity rates.
7. Whether or not the stock market efficiently prices equity.
8. What are the features of an efficient financial contract?

Dates

October 10	Midterm Examination
December 14	8:00-11:00 am, Final Examination

Examinations and Grades: There are 100 possible points in the course: 50 each for work for Froyen and Salemi. Professor Froyen will give a 50 point midterm examination. Professor Salemi will give a 40 point final examination and 10 points of quizzes and graded exercises. Letter grades are based on total points and not on an average of letter grades. There is a penalty for work turned in late.

Attendance: Very regular attendance is expected. Pop quizzes are given at the instructor's discretion. Students who are not willing to attend very regularly should drop the course.

Text and Readings:

The text is Frederick S. Mishkin, *The Economics of Money, Banking and Financial Markets*, 8th ed. Professor Froyen will make some assignments from Richard Froyen, *Macroeconomics: Theories and Policies*, 8th ed. (copies will be made available, you do not need to purchase the book). Both Froyen and Salemi will assign other supplemental readings and make them available through the course web page.

Syllabus

The course syllabus has four parts. Please see the attached course calendar for day-by-day topics and reading assignments. The supplemental readings are available on the course web page.

Part One: Introduction and Overview of Financial Markets

Mishkin, Chapters 1-4

Part Two Central Banking and the Conduct of Monetary Policy

Mishkin, Chapters 12-16

Chapters 17-18, Froyen, Richard T., *Macroeconomics: Theories and Policies, Eighth Edition*, Pearson Prentice Hall, 360-402.

Part Three: Financial Markets and Asset Prices

Mishkin, Chapters 5-7

Fisher, Irving, *The Theory of Interest*, Augustus M. Kelley Publishers, Clifton, N.J., 1930, reprinted in 1974.

“What Makes the Yield Curve Move?,” Federal Reserve Bank of San Francisco *Economic Letter*, Number 2003-15, June 6, 2003

Shiller, Robert J., “From Efficient Markets Theory to Behavioral Finance,” *Journal of Economic Perspectives*, 17, 1, Winter 2003, 83-104,

Part Four: Financial Institutions

Mishkin, Chapter 8, 11

Chapters 9 and 10 of Mishkin provide background material that will not be explicitly covered in class.

Walter, John R., “Depression-Era Bank Failures: The Great Contagion or the Great Shakeout?” Federal Reserve Bank of Richmond *Economic Quarterly*, 91, 1, Winter 2005, 39-54.