Instructor: Dr. Professor Kevin D. Salyer, Office: 1120 Social Sciences and Humanities Building.

Time and Location: MWF 10:00-10:50, Wellman 230.

Office Hours: Monday 11-12:00PM
Wednesday 11-12:00PM or by appointment.

Textbook: The text for this course is Financial Markets and Institutions by Frederic Mishkin and Stanley Eakins. The book will primarily be used to provide background and core material that will supplement and complement the lectures. There will be additional (required) articles that will be available from the class web site.

Course Overview: This course will examine the role of banks and other financial intermediaries in the economy. In general, financial intermediaries provide important economic services through asset transformation, risk management, and project monitoring. Banks, being depository institutions, also provide unique liquidity intermediation services. The course will consist of three parts. In Part I, which represents the bulk of the course, we will study bond pricing, the term structure of interest rates and some key asset markets, most notably the mortgage market. Then we will turn our attention to banks as commercial enterprises and examine the measurement and management of bank risk. We will also discuss banking regulation and the role of the Federal Reserve. In the second Part, we will study theoretical models of banks which highlight the role of uncertainty and asymmetric information in the lending process. In Part III, we will discuss the credit crisis and the Fed’s response.

Grading: The class grade will be determined by performance in three areas: homework assignments, two midterms and a final. They will count toward the grade as follows.

Assignments 15%
Midterms 40% (each count 20%)
Final 45%

Please note: The final is scheduled for Thursday December 10 at 3:30PM - an alternative exam will not be offered.

Course Schedule

Part I: The Basics: Bonds and Financial Intermediaries
Week 1: Introduction to financial markets, Interest rates and bonds
Week 2: Yield Curve, Efficient Markets, Banks and the Banking Industry
Week 3: Hedging Interest rate risk with futures and options
FIRST MIDTERM: FRIDAY OCT. 16
Week 4: The money and mortgage markets
Week 5: The Fed

Part II: Models of Banks
Week 6: Risk Aversion, Diversification, Insurance
Week 7: Banks as providers of liquidity insurance
SECOND MIDTERM: FRIDAY NOV. 13
Week 8: Lending under asymmetric information

Part III: Monetary Policy
Weeks 9: Banking Regulation and Financial Crises
Week 10: The Panic of 2008

Readings:
3. Excerpt from X. Friexas and J. Rochet, Microeconomics of Banking, Cambridge, MA: MIT Press.