

Money, Banking, and Financial Markets 2020

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Office Hours: By appointment.

Class Time and Location: As per JSJP timetable

Objective of the Course

The objective of this course is to familiarize the students to the banking and financial institutions, their role in smoothening the transactions and facilitating the growth of the economy. These institutions are unlike other institutions as they work in an environment where risk, liquidity, stability, and information plays much larger role than in other organizations. Other salient feature of these organizations is their networked much closely to each other and the contagious effect of one's performance spread over in the market much faster than in any other market. The students will be apprised to appreciate the gravity of the complications in this domain through course.

Textbook

Textbook will not be used chapter-by-chapter. There will be lecture slides to guide you through the main topics covered in the course. Suggested readings will also be shared during the course to understand concepts better, and in depth. For further reading, and to prepare and practice for the quizzes and exams, the students may refer following books (in order of preference) and quiz/final exam preparation.

1. The Economics of Money, Banking and Financial Markets by Mishkin
2. Money, Banking and Financial Markets by Stephen G. Cecchetti and Kermit L. Schoenholtz

Evaluation and grading

We are starting this semester in uncertain time. So, we need some flexibility in terms of evaluation and grading. Here is the plan for either online or offline mode of teaching this course:

External component (50%):

This is university guidelines to have minimum 50% for external evaluation. This exam will happen after all the teaching is finished. Mode of testing will be as per exam office guidelines.

Internal component (50%):

This is a continuous assessment. We will have *five* written tests and *four* best will be taken for evaluations [40%]. There will be no make-up test for this. These tests will be announced one week (7 days) in advance. The instructor will choose the mode of examination for these tests, from among possible options – book review, written tests in limited time (in class or take-home), online multiple choice questions, group presentation, etc.

Rest 10%: There will be in-class (or just after class) small online quizzes. These will be announced at least 3 days in advance so that you can arrange for internet. Instructor will also have discretion here to assign upto half of these marks (i.e. 5%) based on class participation (as and when offline classes begins).

Attendance policy

Instructor will follow university policy for the attendance (75%). If the you fall short of attendance, except for approved duty leaves, the university might bar you from final examination. No appeal will be entertained by the instructor.

If the university (i.e. the registrar) waives this requirement, then there will be no attendance taken or recorded by the instructor.

Mobile/laptop policy

Use of mobile phone or laptop is strictly prohibited in the classroom except when allowed by the instructor for a specific assignment. If you have to attend an important/emergency call, you are free to walk out of the class.

This has no meaning when we have online classes. However, we will revert to this policy as and when offline classes start.

Course Outline

Following is the suggested course outline. There might be some changes as we go along.

1. Introduction to financial markets
 - Different type of financial institutions (Central bank, regulators, intermediaries etc)
 - Different instruments of the financial markets (Debt, equity, money, interest rate etc)
2. Payment systems
 - Money (supply of money, measuring money, paper money, virtual money)
 - Digital money (Bitcoins, wallets, Apps, online transfers etc)
 - Mobile banking and financial inclusion

- 3. Understanding interest rate**
 - Determinants of interest rate (demand/supply in asset market)
 - Movement in equilibrium interest rate
 - Term structure of interest rate
 - Bond market liquidity
 - Negative interest rate
- 4. Stock market**
 - Pricing of listed stocks
 - Influences of macroeconomic events on stock prices
 - Behavioral finance (herd behavior)
 - High frequency trading, algorithm trading
- 5. Economic analysis of financial institutions**
 - How does the financial institutions earn, what challenges they face (e.g. Moral Hazard etc.)
- 6. Role of banking and non-banking financial institutions**
 - What do the banks do?
 - Management structure
- 7. Banking regulations**
 - How the regulations are designed
 - What purpose does the regulations serve?
 - Stress testing of banking and non-banking financial institutions
- 8. History and evolution of banking system**
 - Nationalization of banks, privatization, competition of banks
 - International banking (e.g. Masala bonds)
- 9. Financial crisis in advanced economies**
 - Great depression
 - Global financial crisis of 2007-8
 - European sovereign bond crisis
 - Stabilization and International initiatives
- 10. Financial crisis in emerging economies**
 - Dynamics of financial crisis
 - Crisis in South Korea, Argentinian financial crisis
 - Recommendations to avoid financial crisis
- 11. Central banking**

- Origin of central banking
- Structure of Reserve bank of India
- Independence of central banks
- Islamic banking

12. Process of money supply

- Size of balance sheet of RBI
- Reserve ration, repo rate, currency printing, etc.
- Money multiplier
- Quantitative easing and money supply

13. Tools of money supply

- Open market operations,
- Lending to banks
- Bond market for government securities

14. Strategy and tactics of monetary policy

- Inflation targeting (price stability)
- Criteria for choosing various policy instrument
- Taylor rule