

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ECON 350 Money and Finance

Semester 1, 2009

*Lecturer in charge:
Assoc. Professor Sean Turnell*

Department of Economics

ECON 350: Money and Finance

I. COURSE OVERVIEW

ECON350 provides a review and analysis of the role and characteristics of financial markets, institutions, and the instruments they trade. The workings of the Australian financial system are explored, but the unit is primarily global in focus. Money and finance are examined both in terms of theoretical foundations and in practical application, and there is a strong preference for the use of history as a vehicle for providing perspective and insight.

Amongst the topics examined in Econ 350 include the meaning and nature of money, techniques of selling and pricing securities, rational expectations and market efficiency, the innovations of behavioural finance, arbitrage and speculation - as well as in-depth analyses of the functions and features of money markets, bond markets, equity markets and the actions and presumptions of monetary authorities. The central theme of Econ 350 is that innovation in money and finance has been as important as innovation anywhere else in shaping the modern world.

In recent times the world has been convulsed in a series of events that have become popularly known as the 'global financial crisis'. Critical aspects of these (ongoing) proceedings will be examined in Econ 350, along with their implications for financial markets, now and in the future.

II. ENQUIRIES

If you have *any* enquiries about the course, please contact me (Sean Turnell). My office is located in the main Faculty building (E4A), Room 426.

Alternatively, you can contact me by telephone on:

9850 8493

Or e-mail:

sturnell@efs.mq.edu.au

III. COURSE TIMETABLE

Students attend three classroom hours per week (in one block), comprising **lectures** using a mix of theory and practical applications, delivered in First Semester, and in both day and evening sessions.

The evening lectures take place on:

Tuesdays, 6 – 9 p.m., C5C T1

The day lectures take place on:

Thursdays, 3 – 6 p.m., X5B T1

Of course, you only have to attend one of these sessions! If you are ever in doubt about timetabling and class times and places, see the University's website:

<http://www.timetables.mq.edu.au/>

Students are expected to attend the full quota of lectures; all the material covered in class is examinable.

It is my expectation that the lectures of Econ 350 will be recorded on the University's i-Lecture facility. This can be found at:

<http://learn.mq.edu.au>

The 'Blackboard' facility at this same site will also be the main vehicle through which unit communications will be made, and via which students can communicate with each other.

IV. ASSESSMENT

Essay (30%)

All students are required to complete an essay (on the set topic – see below) **in class, on Tuesday, 31 March (Week 6) if you are in the evening stream, and Thursday 2 April (same week) if you are in the day stream.** Completing the essay, on these days, and in class, is compulsory. Normal exam conditions will apply.

Final Exam (70%)

The final examination will consist of multiple choice and essay-type questions. Further details relating to the number of questions and so on will be given closer to the Exam.

This two hour final exam will be held during the University Examination period. The University Examination period in First-Half Year 2009 is from 10 June to 26 June.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations:

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of **documented** illness or **unavoidable** disruption. In these circumstances you may consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at: <http://www.reg.mq.edu.au/Forms/APSCon.pdf>

If a Supplementary Examination is granted as a result of the Special Consideration process, the examination will be scheduled after the conclusion of the official examination period.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

V. LECTURE TOPICS: OVERVIEW

- Topic:
1. Introduction to Financial Markets and Money
 2. The Global Financial Crisis.
 3. The Evolution of Monetary Theory and Practice
 4. Interest Rates: Their Determination and Structure
 5. Central Banking and Monetary Policy
 6. Money Markets
 7. Bond Markets
 8. Equity Markets
 9. Derivatives and Options Markets

10. The Efficient Markets Hypothesis and its Critics
11. Behavioural Finance
12. Electronic Money

VI. USEFUL REFERENCES

There are a number of useful references for this course, even though there is **no** set textbook.

Perhaps the most useful is Niall Ferguson's 'The Ascent of Money', which was published in late 2008 by Allen Lane (Penguin), London. This book is a wonderful overview of the history of money and finance – indeed, its subtitle is 'A Financial History of the World'. What makes this different to most books recommended for courses such as this is that it is also great fun to read – full of drama, violence, scandal, passion, crime, and so on – in short, all the things that *really* drive money and finance. It takes its story all the way up to mid-2008. A television series on the book was also made in 2008, but is yet to be screened in Australia (we might be able to say more about this when the time comes). Also, there is an interview with Ferguson about the book on the web. This interview appeared on the US public broadcaster 'C-SPAN' (on November 17, 2008), which many of you may have heard about. At the time of writing (Feb 2009) the interview can be seen at:

<http://www.booktv.org/watch.aspx?ProgramId=AW-9954>

Now, it is important to stress that buying *The Ascent of Money* is not essential for the course. Because I think many of you might like it, however, I've made sure that the Co-Op Bookshop at Macquarie has quite a few copies.

At the more 'technical' level, some of the 'standard' finance textbooks are quite good. Of course, none will include the events of recent times, which is just one reason why I did not set one as 'the text'.

Probably the best of the textbooks is:

Kidwell, D. *et al.* 2007, *Financial Markets, Institutions and Money*, John Wiley & Sons, Milton, Qld.

Other useful ones include:

Howells, P. and Bain, K. 2007, *Financial Markets and Institutions*, 5th edn, Financial Times/Prentice Hall, Harlow, UK.

Hunt, B. and Terry, C. 2008, *Financial Institutions and Markets*, 5th edn, Thomson, Melbourne.

Valentine, T. *et al.* 2006, *Financial Markets and Institutions in Australia*, Pearson, Frenchs Forest, NSW

READING LIST BY LECTURE TOPIC

Topic 1: Introduction

Kidwell, Ch.1
Hunt and Terry, Ch.1, Ch.5
Howells and Bain, Ch.1
Valentine, Ch.1
Ferguson, introduction.

Topic 2: The Global Financial Crisis

Ferguson, *passim*

Articles for essay (below), and regular updates as the course progresses.

Topic 3: The Evolution of Money in Theory and Practice

Ferguson, *passim*

Davies, Glyn, 1994 & 2002, *A History of Money*, University of Wales Press, Cardiff. There are significant web resources for this book. These can be found at: <http://projects.exeter.ac.uk/RDavies/arian/llyfr.html>

Topic 4: Interest Rates: Their Theory and Structure

Kidwell, Ch.4, Ch. 6
Valentine, Ch. 10

Topic 5: Central Banking and Monetary Policy

Kidwell, Ch.2, Ch.3
Valentine, Ch.9
Plus – many articles, speeches, data from RBA website: www.rba.gov.au

Topic 6: Money Markets

Kidwell, Ch.7
Valentine, Ch.2
Hunt and Terry, Ch.7
Howells and Bain, Ch.5

Topic 7: Bond Markets

Kidwell, Ch.8, Ch.5
Ferguson, Ch.2
Valentine, Ch.2
Hunt and Terry, Ch.8
Howells and Bain, Ch.6

Topic 8: Equity Markets

Kidwell, Ch.9
Ferguson, Ch.3
Valentine, Ch.11
Hunt and Terry, Ch.9, Ch.10

Topic 9: Derivatives and Options Markets

Kidwell, Ch.10
Valentine, Ch.14, Ch.15
Ferguson, Ch.5

Topic 10: The Efficient Markets Hypothesis and its Critics

Kidwell, Ch.1
Valentine, Ch.11

Topic 11: Behavioural Finance

Ferguson, Ch.3, Ch.6
Valentine, Ch.11

But especially: <http://www.behaviouralfinance.net/>

Topic 12: Electronic Money

Gup, Ch.17
Valentine, Ch.12

But especially: <http://projects.exeter.ac.uk/RDavies/arian/emoney.html>

VII. ESSAY TOPIC

In Week 6, students in Econ 350 will be required to attend the normally scheduled lecture in order to complete the Class Essay. The topic *area* is outlined below, together with the readings required to write it. These readings are sufficient to answer the question and they are to be consulted, read and understood, prior to the class in which the essay is to be written. Neither the readings, nor any other material, can be consulted during the time allotted for writing the essay, and for which normal University exam conditions will apply. These conditions include the provision of relevant ID. The essay is to be written in the exam booklet provided.

Time allotted for writing the essay is 80 minutes. The essay will be marked as an 'exam essay' and, as such, you will not be required to provide references, footnotes and other such accoutrements of a 'take home' essay. On the other hand, it must be stressed that the essay should be written in a 'formal' way, and marks will accrue for such attributes as quality of expression, writing style, strength and logic of argument, and so on.

The topic:

The topic for our essay is, perhaps not surprisingly, the global financial crisis. The *actual question* will be revealed later, but it will be drawn from the following two (fairly brief) works by Carla Reinhart of the University of Maryland, and Kenneth Rogoff of Harvard University:

<http://www.economics.harvard.edu/faculty/rogoff/files/Aftermath.pdf>

<http://www.puaf.umd.edu/news/Reinhart%20paper.pdf>

It will also draw upon selected articles from 'The Economist' Special Report, 'The Future of Finance', which was published on 22 January 2009. This Report can be found in E-Reserve at the University Library website:

<http://www.lib.mq.edu.au/reserve/>