

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

# ECON 350 Money and Finance

Semester 1, 2010

*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.

## 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:

sean.turnell@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.

The day lectures take place on:

Thursdays, 3 – 6 p.m.

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.

For reasons that will be outlined in class, please note that there will be **no** lectures in Week 5 (22-26 April).

#### **IV. ASSESSMENT**

##### **Mid-Semester Exam** (40%)

All students are required to attend a mid-semester exam **in class, on Tuesday, 27 April (Week 8) if you are in the evening stream, and Thursday 29 April (same week) if you are in the day stream.** The exam will consist of a series of 'short-answer' questions on material covered up to that point. Normal exam conditions will apply.

##### **Final Exam** (60%)

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 2010 is from 7 June to 25 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 Evolution of Monetary Theory and Practice I: From Ancient Times to the Bank of England.
  3. Interest Rates: Their Determination and Structure
  4. Central Banking and Monetary Policy
  5. The Evolution of Monetary Theory and Practice II: From Alexander Hamilton to Modern Money and Finance.
  6. Money Markets
  7. Bond Markets
  8. Equity Markets
  9. The Evolution of Monetary Theory and Practice III: The Dematerialisation of Money
  10. Derivatives and Options Markets

11. The Efficient Markets Hypothesis and its Critics

12. Behavioural Finance

## 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, and broadcast on the ABC (and it is available on DVD). Also, there is an interview with Ferguson about the book on the web. This interview ('Afterwords: Niall Ferguson author of 'The Ascent of Money: A Financial History of the World' interviewed by Adrian Woolridge, Washington bureau chief for The Economist') appeared on the US public broadcaster 'C-SPAN' (on November 17, 2008). To find it, simply go to the C-Span website ([www.c-span.org](http://www.c-span.org)) and type in the title above (or, of course, use Google. NB: There are other interviews with Ferguson on c-span, but it is the one regarding The Ascent of Money that is of interest to this course).

Another interesting 'general' book to have emerged recently is Liaquat Ahmed's 'Lords of Finance: The Bankers Who Broke the World', Penguin, 2009.

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*, 5<sup>th</sup> edn, Financial Times/Prentice Hall, Harlow, UK.

Hunt, B. and Terry, C. 2008, *Financial Institutions and Markets*, 5<sup>th</sup> 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 Evolution of Money in Theory and Practice I: From Ancient Times to the Bank of England**

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 3: Interest Rates: Their Theory and Structure**

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

### **Topic 4: 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](http://www.rba.gov.au)

### **Topic 5: The Evolution of Money in Theory and Practice I: From Alexander Hamilton to Modern Money and Finance**

Chernow, R. 2004, *Alexander Hamilton*, Penguin, New York.

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>

The following web resource, 'Alexander Hamilton on the Web', may be of interest: <http://www.isidore-of-seville.com/hamilton/>

Also of potential interest is an interview with Ron Chernow (biographer of Alexander Hamilton above) At the Hoover Institution, Stanford University, on 'YouTube':

<http://www.youtube.com/watch?v=mAoqMjUlinY>

And another on C-Span at:

<http://www.c-spanvideo.org/program/182317-3>

### **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: The Evolution of Money in Theory and Practice I: The 'De-Materialisation' of Money**

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 10: Derivatives and Options Markets**

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

## **Topic 11: The Efficient Markets Hypothesis and its Critics**

Kidwell, Ch.1  
Valentine, Ch.11

## **Topic 12: Behavioural Finance**

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

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

### **VII. Special Consideration**

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:  
[http://www.mq.edu.au/policy/docs/special\\_consideration/procedure.html](http://www.mq.edu.au/policy/docs/special_consideration/procedure.html)

### **VIII. Student Support Services**

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at  
<http://www.student.mq.edu.au>.