

ECON 350 Money and Finance

Semester 1, 2011

*Lecturer in charge:
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Department of Economics

ECON 350: Money and Finance

Students should read this unit outline *carefully* at the start of semester. It contains important information about the unit.

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 emphasis on the use of history as a vehicle for providing perspective, insight and wisdom.

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 elsewhere 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. X5B 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.

For reasons that will be outlined in class, please note that there will be **no** lectures in Week 7 (week beginning 4 April).

IV. ASSESSMENT

Mid-Semester Exam (40%)

All students are required to attend a mid-semester exam **in class in Week 6** (Tuesday, 29 March if you are in the evening stream, and Thursday, 31 March if you are in the day stream). The exam will consist of a series of true/false, multiple choice and 'short-answer' questions on material relating to the conduct of monetary policy, the regulation of financial markets, and the role of investment banks. Details are outlined in Section IX below. 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 2011 is from 6 June to 24 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. Prize

The best performing student in Econ 350 is honoured with the 'Australian Finance Conference Prize for Money and Finance'. It is open to all students proceeding to a Bachelor's degree, and is bestowed at the Faculty's prize evening later in the year.

VI. 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. Money Markets
 5. The Evolution of Monetary Theory and Practice II: From Alexander Hamilton to Modern Money and Finance.

6. Bond Markets
7. Equity Markets
8. The Evolution of Monetary Theory and Practice III: The Dematerialisation of Money
9. Derivatives and Options Markets
10. The Efficient Markets Hypothesis and its Critics
11. Behavioural Finance

VII. USEFUL REFERENCES

The textbook for this course (as it is for the 'sister unit', *Econ 335, The Economics of Financial Institutions*) is Kidwell, D. *et al.* 2011, *Financial Markets, Institutions and Money*, John Wiley & Sons, Milton, Qld.

Highly useful for this course is Niall Ferguson's 'The Ascent of Money', which was published in late 2008 by Allen Lane (Penguin), London. This book provides an 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) 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).

As good as Ferguson's high profile book is Jack Cashill's 'Popes and Bankers. A Cultural History of Credit, Debt, From Aristotle to AIG'. This was published in 2010 by Thomas Nelson. As with Ferguson, Cashill has given a presentation on his book on C-Span: <http://www.c-spanvideo.org/program/293100-1>. Cashill makes some truly dreadful jokes at the start of this presentation, but it gets better...

At the more 'technical' level, some other 'standard' finance textbooks are quite good. These include:

Valentine, T. *et al.* 2011, *Financial Markets and Institutions in Australia*, Pearson, Frenchs Forest, NSW

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.

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. 7

Topic 4: Money Markets



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

Topic 5: The Evolution of Money in Theory and Practice II: 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: Bond Markets



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

Topic 7: Equity Markets



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

Topic 8: The Evolution of Money in Theory and Practice III: 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 9: Derivatives and Options Markets



Kidwell, Ch.10

Valentine, Ch.10 & 11

Ferguson, Ch.5

See also C-Span video on Futures:

<http://www.booktv.org/Watch/12203/The+Futures+The+Rise+of+the+Speculator+and+the+Origins+of+the+Worlds+Biggest+Markets.aspx>

Topic 10: The Efficient Markets Hypothesis and its Critics



Kidwell, Ch.1

Valentine, pp.245-251

Topic 11: Behavioural Finance



Ferguson, Ch.3, Ch.6
Valentine, pp.245-251

And: <http://www.behaviouralfinance.net/>

VIII. Learning Outcomes

Content is king. No ifs, no buts, no post-modern pandering. And content is all contained in the above. Knowing the content is the *sine qua non*¹ for success in this unit.

Having said that, however, there are some 'generic' learning outcomes that should come from successfully completing Econ 350:

- To be open to new (and *old!*) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To be able to identify, and call out, ideas that are merely ephemeral, fashionable, politically-correct or mindlessly conform to the conventional wisdom.
- To identify, define and analyse problems and recommend creative solutions within real-world constraints.
- To demonstrate a capacity to work independently including the ability to plan and achieve goals.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To be intellectually ready to participate in public policy discussions arising in social, business and policy environments;
- To manage, analyse, evaluate and use information efficiently and effectively.

¹ Latin, essentially, 'without which there is nothing'.

IX. Mid-Semester Exam

The mid-semester exam will test your understanding of the conduct of monetary policy, the regulation of financial markets, and the role of investment banks, both in Australia and overseas. It will be based on Chapters 2, 3 and 17 of our textbook (Kidwell *et al* 2011). It is critically important that you access these chapters, read them thoroughly, and understand them. Don't forget – the mid-semester exam is worth 40% of your final assessment. The exam will consist of true/false, multiple choice and short-answer questions, which you will write directly onto the question sheet that will be provided.

Normal exam conditions will apply, as will various measures to ensure exam integrity and security. Accordingly, you must attend the lecture stream in which you are formally enrolled, and you are required to bring your University ID Card.

Failure to attend the mid-semester exam will result in a mark of **zero** for this assessment component. Students who experience *serious misadventure* and are unable to attend the exam should contact me (Sean Turnell) as soon as is reasonable, and provide full documentation explaining their non-attendance. As a matter of **justice** to all students, flimsy excuses will be rejected outright. If the documented evidence is accepted, the final exam mark will be converted to a higher percentage of the total marks.

X. 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

XI. 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>.

XII. IT Policy

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.

- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.