

ECON 350 Money and Finance

Semester 1, 2012

*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 also an 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 day lectures take place on:

Mondays, 3 – 6 p.m.

The evening lectures take place on:

Wednesdays, 6 – 9 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://ilearn.mq.edu.au>

For reasons that will be outlined in class, please note that there will be **no** lectures in Week 2 (week beginning 5 March). Likewise, we lose week 7 because of Anzac Day.

IV. ASSESSMENT

Review Essay and Research Questions (40%)

The within semester assessment task for Econ 350 consists of a 'review essay' and some long-answer questions based upon the research papers detailed in Section IX below. The specific question will be given in class, and via the online announcement system once the course is underway. The essay and other questions must be handed in to the 'Business and Economics Student Services' centre (BESS) by 4.30 pm, Friday, 27 April.

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.

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.exams.mq.edu.au/>

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.
 3. Interest Rates: Their Determination and Structure
 4. Central Banking and Monetary Policy
 5. Money Markets
 6. Bond Markets
 7. Equity Markets
 8. Derivatives and Options Markets

9. The Efficient Markets Hypothesis and its Critics

10. Behavioural Finance

VII. USEFUL REFERENCES

There is no set textbook for Econ 350.

A very useful book 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.

Also 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).

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



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=mAogMjUlinY>

And another on C-Span at:

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

Topic 3: Interest Rates: Their Theory and Structure



Kidwell, Ch.4, Ch. 6
Valentine, Ch. 7

Topic 4: Central Banking and Monetary Policy



Kidwell, Ch.2, Ch.3

RBA Website, www.rba.gov.au

Topic 5: Money Markets



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

Topic 6: Bond Markets



Australian Government
The Treasury

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: 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 9: The Efficient Markets Hypothesis and its Critics



Kidwell, Ch.1
Valentine, pp.245-251

Topic 10: 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.

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

- 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.

IX. Review Essay and Research Questions (40% of Unit Assessment)

The within-course assessment component of Econ 350 consists of a review essay (20%), and a series of other questions (20%), based on the papers listed below (as well as some of the material covered in lectures). It is critically important that you access these papers, read them thoroughly, and understand them. The specific questions will call upon your critical reasoning and appraisal skills. These in will be given in class, and via the Unit's announcements system, on 2 April. The essay and other questions are to be placed in the labelled box outside the Business and Economics Student Services centre (BESS), E4B 106, by 4.30 pm, Friday 27 April 2012. Your unit convenor acknowledges that you will be very busy at this time...which is why he has taken advantage of the Anzac Day interregnum to give you Week 7 off.

The papers:

1. Australian Financial Centre Forum 2009, 'Australia as a Financial Centre: Building on Our Strengths', Department of the Treasury, Commonwealth of Australia, http://cache.treasury.gov.au/treasury/afcf/content/final_report/downloads/AFCF_Building_on_Our_Strengths_Report.pdf (NB - Chapters 1, 2 and 7 **only**).
2. Reserve Bank of Australia, *RBA Statement on Monetary Policy* (Chapter entitled 'Domestic Financial Markets' only), <http://www.rba.gov.au/publications/smp/2012/feb/pdf/dom-fin-mkts.pdf>

3. Reserve Bank of Australia, 'Minutes of the Monetary Policy Meeting of the RBA Board', date to be advised, www.rba.gov.au
4. Rousseau, P.L. and Sylla, R. 1999, 'Emerging Financial Markets and Early US Growth', NBER Working Paper 7448, <http://www.nber.org/papers/w7448>
5. Rousseau, P.L and Sylla, R. 2001, 'Financial Systems, Economic Growth, and Globalization, NBER Working Paper 8323, <http://www.nber.org/papers/w8323>

Failure to hand in this assignment will result in a mark of **zero** for this assessment component. Students who experience *serious misadventure* and are unable to do so should contact me (Sean Turnell) as soon as is reasonable, and provide full documentation of the disruption. As a matter of **justice** to all students, flimsy excuses will be rejected. Equally in the interests of justice, instances of plagiarism (either from the works above, other articles, or from the efforts of other students) will result in **severe penalties**. With respect to plagiarism from other students, it is important to note here the culpability of the '**copied**', as well as the copiers.

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. Learning and Teaching Activities

As noted above, this unit is taught via three hours of lectures per week. In terms of student activity in relation to this, it is suggested that lecture slides and/or any readings be read in advance. Meanwhile, keeping up to speed on events impacting financial institutions and markets will be highly advantageous.

XIII. Research and Practice

This unit makes extensive use of Macquarie University researchers, as can be seen from the reading guide, lecture slides, and elsewhere.

XIV. Graduate Capabilities

Econ 335 will impart a range of discipline-based learning capabilities. In addition to these, however, a range of other skills will be exercised in critical and analytical thinking, in research, in citizenship and ethics, and in professional responsibility.

XV. 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.