

## ABSE302- Money and Banking

Course Title	<b>Money and Banking</b>			
Course Code	<b>ABSE 302</b>			
Course Type	<b>Business Elective</b>			
Level	<b>BSc (Level 1)</b>			
Year / Semester	<b>3<sup>rd</sup> / Spring</b>			
Teacher's Name	<b>Dr. Petia Tanova</b>			
ECTS	6	Lectures / week	3	Laboratories/week
Course Purpose	<p>The course builds on the principles obtained in the previous modules in Macroeconomics. It has as a goal to expand and deepen students' knowledge of the theories of money and to examine the effect of monetary policies. The course aims to sharpen students' analytical and methodological skills in confronting macroeconomic problems in the monetary sector and the interplay of the monetary and the real sector. It provides students with a toolbag of basic analytical techniques to examine the effectiveness of monetary policies on the real sector.</p> <p>A major objective of the course is to help students develop systematic, critical and independent thinking of today's macroeconomic policies.</p>			
Learning Outcomes	<p>Upon the successful completion of this course, students will be able to:</p> <ol style="list-style-type: none"> <li>1. Examine the nature and structure of the financial system</li> <li>2. Differentiate the flow of funds between savers and borrowers and identify how financial intermediaries assist the transfer of funds from lenders to borrowers</li> <li>3. Estimate various interest rates such as current yield, yield to maturity, and rates of return using actual country data</li> <li>4. Debate the arguments of monetary theories from the perspective</li> <li>5. Analyze money markets and their relation to the interest rates, GDP, investment and inflation.</li> <li>6. Explain the various transmission channels of monetary policy, and assess its impact on economic activity in an open economy.</li> <li>7. Examine the nature and operation of the Central Banking</li> <li>8. Compare and contrast different theoretical approaches to monetary policy.</li> <li>9. Explain and apply the IS-LM model to the assessment of macroeconomic policies.</li> <li>10. Measure and determine foreign exchange rates, analyze fixed and floating exchange rate mechanisms</li> </ol>			

Prerequisites	<b>ABSE204</b>	Corequisites	<b>None</b>
Course Content	<p><b><i>I. Financial instruments, markets and institutions</i></b></p> <p>Define and examine the financial system: money, financial instruments, financial markets, financial institutions, and the central bank.</p> <p>Distinguish between financial instruments and analyze their attributes.</p> <p>Identify the functions of financial markets and their structure.</p> <p>Distinguish between money markets and capital markets</p> <p>Examine the purpose and profile of financial intermediaries and distinguish between banking and non – banking financial institutions.</p> <p><b><i>II. Interest rate measurement and behaviour</i></b></p> <p>Identify different types of interest rates and apply theoretical knowledge in a simulation game.</p> <p>Explain the inverse relationship between yields and bond prices and Calculate present value and yields to maturity of different types of bonds: discount bonds, fixed payment loans, coupon bonds and consols.</p> <p>Distinguish between yield on a discount basis and the yield to maturity and apply it in problem solving.</p> <p>Discuss the meaning and importance of yield to maturity vs. current yield vs. holding period return and calculate them in problem solving. Compare and contrast interest rates and returns.</p> <p><b><i>III. The bond markets</i></b></p> <p>Identify the decision makers on the bond market and analyze their motivation and factors affecting their behavior.</p> <p>Derive the demand curve for bonds in a simulation game and examine factors determining its shifts.</p> <p>Build the curve of bonds supply curve and outline factors affecting its position.</p> <p>Analyze the equilibrium in the bonds market and its dynamics and examine determinants of interest rates.</p>		

Assess sources of bonds risks and apply it to the analysis of the bond market fluctuations.

#### ***IV. Central banking***

Examine the nature and the functions of the Central Bank.

Derive the money multiplier, compare it to the deposit multiplier and analyze its constraints.

Familiarize with the theory of monetary integration and apply it to the assessment of the eurozone current developments

Explain and understand the structure of the Eurosystem and functions of the European central bank and national central banks.

Examine the functions of The Central Bank of Cyprus and discuss empirical evidence.

Discuss the issue of central bank independence.

Critically examine the instruments and effectiveness of the monetary policy of the European central bank based on theory and empirical evidence.

#### ***V. The IS-LM model***

Examine the assumptions of the *IS-LM* model and derive the *IS* and the *LM* curves.

Analyze factors determining the shifts in the *IS* and the *LM* curves and explain the dynamics of disequilibrium in the monetary sector and in the real sector.

Analyze the dynamics of the *IS-LM* equilibrium and apply it to the examination of fiscal and monetary policies.

#### ***VI. Understanding foreign exchange***

Understand the exchange rates and apply graphical analysis to the equilibrium in the foreign exchange market.

Explain the shape of the foreign exchange supply curve and distinguish between stable and unstable equilibrium.

Identify, classify and analyze factors determining fluctuations in the foreign exchange market.

	<p>Examine how exchange rates are affected by fluctuations in economic growth, inflation, interest rates, and expectations.</p> <p>Analyze advantages and shortcomings of fixed and floating exchange rate systems.</p> <p>Apply graphical analysis to the assessment of the effectiveness of fiscal and monetary policy under fixed and under floating exchange rates.</p>
<p>Teaching Methodology</p>	<p>The taught part of course is delivered to the students by means of <i>ex cathedra</i> lectures and discussions in class, by means of traditional tools and using computer demonstrations. The instructor relates current events with the material presented in the lectures. During the lectures students are encouraged to participate in discussions.</p> <p>Some of the key issues are revealed on the basis of simulation games. Role playing and teamwork are incorporated in the simulations.</p> <p>Auditory exercises, where examples regarding matter represented at the lectures, are solved and further questions related to particular open-ended topic issues are compiled by the students and answered, during the lecture or assigned as homework.</p> <p>Topic notes are compiled by students, during the lecture. Lecture notes and slide shows can also be downloaded from the lecturer's webpage. Tutorial problems are submitted as homework and these are solved during lectures or privately during lecturer's office hours.</p> <p>Further literature search is encouraged by assigning students to identify a specific problem related to some issue, gather relevant scientific information about how others have addressed the problem and report this information in written or orally. Teamwork assignments on the current developments in the world financial markets and the European central Bank policies are given to collect information and communicate it with the audience in a dispute format.</p>
<p>Bibliography</p>	<p><b><u>(a) Textbooks:</u></b></p> <p>Mishkin F. S. (2018) Economics of Money, Banking, and Financial Markets, 12<sup>th</sup> edition, Pearson</p> <p><b><u>(b)References:</u></b></p> <ul style="list-style-type: none"> <li>• Godley W. and M. Lavoie (2012) Monetary Economics: An Integrated Approach to Credit, Money, Income, Production and Wealth . Palgrave Macmillan</li> </ul>
<p>Assessment</p>	<p><b><u>(m)Methods:</u></b></p> <p>Students are assessed with coursework that involves homework assignments and class participation, two written quizzes, a midterm and a final exam. The assessment involves explaining theoretical concepts,</p>

	<p>examining real life situations, solving numerical problems and applying graphical analysis.</p> <p>Students are assessed continuously and their knowledge is checked through tests with their assessment weight, date and time being set at the beginning of the semester via the course syllabus.</p> <p>Students are prepared for final exam, by revision on the matter taught, problem solving and concept testing and are trained to be able to deal with time constraints and revision timetable.</p> <p>The final assessment of the students is formative and cumulative and is assured to comply with the subject's expected learning outcomes and the quality of the course.</p> <p><b><u>(n) Criteria:</u></b></p> <p>The assessment criteria can be generalized as follows concerning the area assessed:</p> <ul style="list-style-type: none"> <li>• 86% or more – Excellent application of problem solving skills.</li> <li>• 76%-85% - Very good application of problem solving skills.</li> <li>• 66%-75% - Good application of problem solving skills.</li> <li>• 56%-65% - Satisfactory with some success in applying problem solving skills</li> <li>• 50%-55% -Satisfactory with limited success in applying problem solving skills</li> <li>• Below 50% -Little or no application of problem solving skills.</li> </ul> <p>Assessment criteria are available in each written assignment, midterm or in the final exam.</p> <p><b><u>(c) Weights:</u></b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Final Exam</td> <td style="text-align: right;">60%</td> </tr> <tr> <td>2 Quizzes</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>Mid-term</td> <td style="text-align: right;">20%</td> </tr> <tr> <td>Homework assignments and participation</td> <td style="text-align: right;">10%</td> </tr> </table>	Final Exam	60%	2 Quizzes	10%	Mid-term	20%	Homework assignments and participation	10%
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Language	<b>English language</b>								