

Professor: MONTGOMERY, Heather A.

モンゴメリ ヘザー

目的・Course Description

In this course, students will examine how financial markets and institutions work (and sometimes don't work!), and the role they play in the economy. Course readings will cover economic theories of money, banking and financial markets and applications of those theories to explaining real-world events, with a focus on the global financial crisis of 2008.

目標・Course Learning Goals

Students who successfully complete this course will...

- ✓ Understand the role financial markets play in firm financing and the economy.
- ✓ Know how financial market instruments are valued.
- ✓ Understand the role of the banks in the economy and why banks are often subject to special treatment by regulators and the government.
- ✓ Be able to articulate their views and argue persuasively on issues related to financial regulation and economic policy in response to the recent global financial crisis.

内容・Contents

What are financial markets and why do we need them? An introduction to:

金融市場とは何か？なぜ金融市場が必要なのか？各市場の概観：

The Stock Market 株式市場

Money Markets 貨幣市場

The Bond Market 債券市場

The Mortgage Market 住宅市場

What are financial *institutions* (a.k.a. “banks”)? Why do we need banks?

金融機関とは何か？なぜ銀行が必要なのか？

Financial Institutions / Banks in depth: 金融機関/銀行

The U.S. Banking Industry: Structure and Competition (構造と競争)

Bank Management

Bank Regulation

Banking Crises

The Global Financial Crisis of 2008 (金融危機)

Case Studies:

Subprime Meltdown: American Housing and Global Financial Turmoil

Discuss: Who is to blame for the subprime mortgage meltdown?

Investment Banking in 2008 (A): Rise and Fall of the Bear

Discuss: What went wrong a Bear? Did authorities handle the situation correctly?

Investment Banking in 2008 (B): A Brave New World

Discuss: Why was the decision on Lehman so different from Bear?

Bank of America Acquires Merrill Lynch

Discuss: If you were CEO, what would you have decided?

Citigroup-Wachovia-Wells Fargo

Discuss: The objectives of Treasury, the FDIC, Citi, Wachovia and Wells.

U.S. Subprime Mortgage Crisis: Policy Reactions

Discuss: What policies have been taken? Will they work?

Financial Markets Basics: 金融市場の基本事項

Understanding Interest Rates

The Behavior of Interest Rates

The Bond Market in depth: 債券市場の仕組み

The Risk and Term Structure of Interest Rates

The Stock Market in depth: 株式市場の理論

The Theory of Rational Expectations

The Efficient Market Hypothesis

成績とグレーディングポリシー・Evaluation and Grading Policy

Grades will be based upon a series of small quizzes, participation in case study discussion and debate, a critique of a film on the global financial crisis of 2007-8 and a cumulative final exam.

Quizzes ・小テスト(20%):

Quizzes are designed to ensure that students have done the assigned reading and thought about and mastered the most important concepts.

Discussion of Cases ・ケーススタディーのディスカッション (30%):

Participation in ALL cases discussions is an important part of the learning process for this course and thus counts heavily in the final grade. Comments will be evaluated based on quantity and quality. Discussion questions will be posted in advance on the course Moodle page. During the class discussion, comments will be evaluated on the basis of whether they demonstrate 1) careful reading of the case, 2) persuasive arguments 3) arguments that are supported by use of evidence, data or anecdotes, using citations and logic, 4) originality and creativity, and 5) critical thinking - the ability to see the strengths and weaknesses of arguments for both sides of the issue. Students who need to miss class on the day of one of the case discussions, or attend but are not able to make a comment, can receive partial credit if they post a written comment on the Moodle discussion forum by 10pm that day.

Film Critique (20%):

20% of the final grade will be based upon a short (3-4 pages using the recommended 12-point, double-spaced, Times New Roman font) film critique. Students choose one film that is related to some of the topics we learn in the class (Inside Job, Rogue Trader, Margin Call, Too Big to Fail, The Smartest Guys in the Room). View the film, preferably with a small group of other students so that you can discuss your thoughts with each other. In your written critique, you should first introduce the film, then select one “message” from the film that is related to economics. Demonstrate your critical thinking skills by explaining an alternate explanation or interpretation. Include at least one reference to the course text or case studies. Conclude with your own viewpoint.

Final Exam (30%)

30% of the final grade will be based upon a cumulative final exam. This exam will be “open book”, meaning you can use your textbook and notes during the exam. Calculators and dictionaries are also fine. The date and time of the exam will be scheduled by the administration during exam period.

参考文献・Reference Books

The main text used in this class, which is required, is Frederick S. Mishkin (2013), The Economics of Money, Banking, and Financial Markets, 10th Edition. It is available in the ICU bookstore for a reasonable price (about ¥6,000). There are also 3 copies: 8th, 9th and 10th editions, available in the library (10th edition call number: 338/Mi53e10). Unfortunately this text is not available in Japanese.

Other readings will include selected Harvard Business School case studies:

- Subprime Meltdown: American Housing and Global Financial Turmoil
- Investment Banking in 2008 (A): Rise and Fall of the Bear
- Investment Banking in 2008 (B): A Brave New World
- Bank of America Acquires Merrill Lynch
- Citigroup-Wachovia-Wells Fargo
- U.S. Subprime Mortgage Crisis: Policy Reactions

注意事項・Note

ECO101 Principles of Macroeconomics or equivalent knowledge is required for successful completion of this course.

コーススケジュール・Course Schedule

4*/W,F in H-304

Contact Address

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Office Hours: W,F/5 or by appointment, ERB 239

COURSE OUTLINE AND TENTATIVE SCHEDULE (subject to change):

Date	Topic
Fri 4/11	<p>What are financial markets and why do we need them? Introduction to Stock and Bond Markets <u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>An Overview of the Financial System</i>, Chapter 2 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 67-93. (17 pages)</p>
Wed., 4/16 & Fri., 4/18	<p>What are financial markets? Continued.... Introduction to Money Markets and Mortgage Markets. Note: This information is not included in the text, but an outline of the lecture will be made available on Moodle.</p> <p>Quiz: What are Financial Markets? Due to Thursday 4/17, 10pm</p> <p>The Global Financial Crisis of 2008 – Causes <u>Required Reading:</u> Subprime Meltdown: American Housing and Global Financial Turmoil <u>Related Film:</u> <i>Inside Job</i></p>
Wed., 4/23 & Fri., 4/25	<p>Financial Markets Basics: Understanding Interest Rates <u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>Understanding Interest Rates</i>, Chapter 4 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 108-129. (21 pages)</p> <p>Quiz: Understanding Interest Rates Due to Thursday 4/24, 10pm</p> <p>The Financial Crisis of 2008 – Case Study: Bear <u>Required Reading:</u> Investment Banking in 2008 (A): Rise and Fall of the Bear</p>

<p>Wed., 4/30 & Fri., 5/2</p>	<p>Financial Markets Basics: The Behavior of Interest Rates</p> <p><u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>The Behavior of Interest Rates</i>, Chapter 5 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 130-159. (29 pages)</p> <p>Quiz: The Behavior of Interest Rates Due to Thursday 5/1, 10pm</p> <p>The Financial Crisis of 2008 – Case Study: Lehman</p> <p><u>Required Reading:</u> Investment Banking in 2008 (B): A Brave New World (covers Lehman, Morgan Stanley and Goldman Sachs)</p> <p><u>Related Film:</u> <i>Margin Call</i></p>
<p>Wed, 5/7 & Fri., 5/9</p>	<p>The Bond Market</p> <p><u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>The Risk and Term Structure of Interest Rates</i>, Chapter 6 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 160-182. (22 pages)</p> <p>Quiz: The Bond Market Due to Thursday 5/8, 10pm</p> <p>The Financial Crisis of 2008 – Case Study: BofA & Merrill</p> <p><u>Required Reading:</u> Bank of America Acquires Merrill Lynch (A) and (B)</p>
<p>Wed., 5/14 [No class Fri. 5/16]</p>	<p>The Stock Market</p> <p><u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis</i>, Chapter 7 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 183-203. (21 pages)</p> <p>Quiz: The Stock Market Due to Thursday 5/15, 10pm</p>
<p>Wed.,</p>	<p>Why do we need banks?</p>

<p>5/21 & Fri., 5/23</p>	<p><u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>An Economic Analysis of Financial Structure</i>, Chapter 8 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 204-226. (22 pages)</p> <p><u>Related Film:</u> <i>The Smartest Guys in the Room</i> (エンロン)</p> <p>Quiz: Why do we need Banks? Due to Thursday 5/22, 10pm</p> <p>The Financial Crisis of 2008 – Case Study: Citi, Wachovia & Wells</p> <p><u>Required Reading:</u> Citigroup-Wachovia-Wells Fargo</p>
<p>Wed., 5/28 & Fri., 5/30</p>	<p>Bank Management: Liquidity, Assets, Liabilities and Capital</p> <p><u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>Banking and the Management of Financial Institutions</i>, Chapter 11 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 265-293. (27 pages)</p> <p><u>Related Film:</u> <i>Rogue Trader... Barings</i></p> <p>Quiz: Bank Management Due to Thursday 5/29, 10pm</p> <p>The Financial Crisis of 2008 – Policy Response</p> <p><u>Required Reading:</u> “U.S. Subprime Mortgage Crisis: Policy Reactions (A) and (B)”</p> <p><u>Related Film:</u> <i>Too Big To Fail</i></p>
<p>Wed. 6/4 & Fri. 6/6</p>	<p>Bank Regulation</p> <p><u>Required Reading:</u> Mishkin, Frederic S. (2013) <i>Economic Analysis of Financial Regulation</i>, Chapter 12 in <u>The Economics of Money, Banking and Financial Markets</u>, pp. 294-320. (24 pages)</p> <p>Quiz: Bank Regulation</p>

	Due to Thursday 6/5, 10pm
Wed. 6/11 & Fri. 6/13	
6/25	Examination (14:20 – 16:20) at H 304