This course studies the role that financial markets, institutions and money play in resource allocation. We explore these questions analytically, using the tools of economic theory.

**Grading:** Midterm 40% (closed book), Final Examination 60% (closed book)

**Textbook:** The required textbook for the course is ‘Money and Banking’ by Vincenzo Quadrini and Robert Wright, 2008, Flatworldknowledge.com (QW). The students can read the textbook at http://www.flatworldknowledge.com. The book will NOT be available for purchase in the bookstore. Students who wish to buy the hard copy need to order it themselves at Flatworldknowledge. In addition to the textbook, there will be supplemental readings. This will include an additional textbook: ’Modeling Monetary Economies’ by Champ, Freeman and Haslag, 2011, Cambridge University Press (CFH). The references provided below are indicative and may change in due course.

**Office Hours:** Tuesday 11-12.

**Course Outline:**

I. An Overview of the Financial System  
Reading: WQ chs. 1-2.

II. Two Simple Models of Money  
   The OLG model  
   The Inventory Model  
Reading: WQ chs. 3 and 20. and CFH ch. 1

III. Valuation Models  
   The Risk Neutral Model  
   Pricing Bonds and Stocks  
   Nominal Asset Pricing  
   Liquidity Benefits from Short-term Bonds  
   Risk Aversion  
Readings: WQ chs. 4-6.

IV. Financial Frictions and The Firm  
   Optimal Investment Decisions  
   Modigliani-Miller Theorem  
   Frictions and Capital Structure
V. The Role of Banks
   Economizing on Costs
   Transforming Maturity
   Bank Runs

VI. Financial Regulation
   Deposit Insurance
   Limiting Risk Exposure

VII. Financial Institutions and Monetary System
   The Role of Money
   The Role of Financial Intermediaries

VIII. Monetary Policy and Financial Crisis
   Monetary Policy
   Financial Crisis and Policy Reaction