Money, Credit and Banking  
Econ 246  

Prof. Harold Cole  
436 McNeil Bldg  
colehl@sas.upenn.edu  

Fall 2017  
TTH 3-4:30  

This course studies the role that financial markets, institutions and money play in resource allocation. We explore these questions analytically, using the tools of modern economic theory, and also try and get a quantitative feel for the data.

**Grading:** There will be two Midterms and the Final Examination. In addition there will be regular homework assignments. We will count your highest midterm exam 40%, the final exam 45%, and the homeworks 15%. If you miss one of the midterms, we simply use the one you took. *(Missing both midterms will lead to a grading penalty.)* All exams will be closed book. Exam and homework scores will be combined by converting to standard normals and weighting to obtain a final score.

**Textbook:** The course uses an evolving set of lecture notes and the lecture slides as the primary source. The slides will be posted on Canvas. The lecture notes can be found at my Google cite: https://sites.google.com/site/haroldlinhcote/  
The lectures and the slides will be updated as we go along. The course also draws upon several texts. You may want to buy some or all of them. The main text is:

  (any edition is fine.)

In addition to the textbooks, there will be some books that one can consult for supplemental information:

- ‘Money and Banking’ by Vincenzo Quadrini and Robert Wright, 2008, Flatworldknowledge.com (QW).
- Robert Barro, Macroeconomics, MIT Press.
- Brealey and Myers, Principals of Corporate Finance, McGraw-Hill. (BM)

The references provided below are indicative and may change in due course.

**Friday Reviews:** We will have some review sessions and a few make-up classes on Fridays afternoons.

**TA:** Pengfei Han will post his office hours on Canvas. These too may be updated later.
Office Hours: Currently scheduled @ Tuesday 11-12. However this can change so please check the announcements on Canvas for updates.

Tentative Midterm dates: Oct. 3 and Nov 9.

Course Outline:

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

II. Models of Money Demand
   Reading: HB ch 2, WQ chs. 3 and 20, Barro ch. 4, Ferguson ch. 1..

III. Valuation Models
   - The Risk Neutral Model
   - Pricing Bonds and Stocks
   - Nominal Asset Pricing
   - Liquidity Benefits from Short-term Bonds
   - Risk Aversion
   - Arbitrage Pricing
   Readings: HB chs 3-6, WQ chs. 4-6, BM ch 8.
   Additional source: John Cochrane, Asset Pricing, ch. 1 (this is a graduate text)

IV. Financial Frictions and The Firm
   - Optimal Investment Decisions
   - Modigliani-Miller Theorem
   - Frictions and Capital Structure
   Readings: Barro ch. 9 and BM ch. 9.

V. Financial Intermediation
   Readings: HB ch 9-11 and Ferguson ch. 1-2

VI. Financial Regulation
   - Deposit Insurance
   - Limiting Risk Exposure
   Readings: HB 12

VII. The Fed and Monetary Policy
   - The Fed: origin and operation
   - Monetary policy and the FOMC
   - Independence

VIII. Debt, Government Spending and Inflation
   Readings: Ferguson ch. 2-3.

IX. Debt, Default and Interest Rates

X. The Great Recession