



## Lahore University of Management Sciences

### ECON3610 – Money and Banking Spring 2015

Instructor	Professor Ahmed M Khalid
Room No.	Academic Block, Room 150
Office Hours	Tuesday, 2-4pm
Email	<a href="mailto:Ahmed.khalid@lums.edu.pk">Ahmed.khalid@lums.edu.pk</a>
Telephone	3560 8464
Secretary/TA	TBA
TA Office Hours	TBA
Course URL (if any)	

Course Basics				
Credit Hours	4			
Lecture(s)	Nbr of Lec(s) Per Week	2	Duration	110 minutes per lecture
Recitation/Lab (per week)	Nbr of Lec(s) Per Week		Duration	
Tutorial (per week)	Nbr of Lec(s) Per Week	1	Duration	50 minutes

Course Distribution	
Core	
Elective	Elective
Open for Student Category	Juniors/Seniors
Close for Student Category	

COURSE DESCRIPTION
<p>The course consists of two parts. Part I includes discussion on monetary theory and policy. Part II focusses on commercial bank operations and management. Discussion on the role of central bank links both parts. The monetary section includes discussion on the theories of money demand and money supply; portfolio management and determination of interest rate; term-structure of interest rate; and role of central bank in monetary management. Banking section includes discussion on: economics of banking; the role of banks in the presence of asymmetric information; examining bank's balance sheet operations with their need to balance asset, liability, liquidity, and risk and return; and the role of central bank as a regulator. Finally, discussion on some important issues pertinent to money and banking practices in Asian countries with a specific reference to Pakistan in also included.</p>

COURSE PREREQUISITE(S)
<ul style="list-style-type: none"> <li>• Principles of Macroeconomics</li> <li>• Principles of Microeconomics</li> <li>• Intermediate Macroeconomics</li> </ul>

COURSE OBJECTIVES
<ul style="list-style-type: none"> <li>• Enable students to understand and critically examine the theories of money supply and money demand.</li> <li>• Enable students to critically evaluate the determination of interest rates in a portfolio choice model.</li> <li>• Enable students to understand the role of central bank in the design and conduct of monetary policy as well as regulating the banking sector.</li> <li>• Enable students to understand the working of balance sheet and income statement preparation for commercial banks.</li> <li>• Enable students to critically evaluate the bank management stratifies in the context of risk and return.</li> <li>• Enable students to understand regulatory structure governing the commercial banking industry and be able to evaluate banks performance using their annual reports.</li> </ul>



## Lahore University of Management Sciences

### Learning Outcomes

<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>	<p>Our students will demonstrate knowledge to</p> <ol style="list-style-type: none"> <li>1. analyze the monetary theory and the role and functions of central banks in the design and implementation of monetary policy for a specific country</li> <li>2. Understand the structure and operations of the State Bank of Pakistan (SBP) and its monetary policy objectives analyze the empirical validity of monetary theory and be able to assess cross-country comparisons.</li> </ol> <p>Students will demonstrate the ability to collect, analyze and organize information and ideas and convey those ideas clearly and fluently in written and oral forms.</p> <p>Our students will have the skills and confidences to discuss ethical issues related to contemporary issues in monetary policy and banking operations in a global world. This could be achieved through guest lectures on important topics such as Global Financial Crisis, Islamic banking, etc.</p>
---------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### Grading Breakup and Policy

<p>Assignment(s): None          Home Work: Weekly home work; no weight          Quiz(s): 20% (best 4 out of 5, all announced)          Class Participation: 10% (5%: attendance; 5% CP)          Attendance:          Midterm Examination: 30%          Final Examination: 40%</p>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### Examination Detail

Midterm Exam	<p>Yes/No: Yes          Combine Separate:          Duration: 100 minutes (1hr 40 minutes)          Preferred Date: TBA          Exam Specifications: TBA</p>
Final Exam	<p>Yes/No: Yes          Combine Separate:          Duration: 2 hours          Exam Specifications: Exam time</p>

### COURSE OVERVIEW

Week	Topics	Recommended Readings	Objectives/ Application
<b>1</b>	<b>Introduction to Money and the Payment System</b>	H: Ch. 1-2 MV: Ch. 2 (35-49)	
<b>2-3</b>	<b>Money Market Equilibrium</b> Theories of Money Demand Money Supply Process	H: Ch. 23 MV (Ch. 19) Laidler (Ch. 8) H: Ch. 17-18	Money supply process in Pakistan will be discussed briefly.
<b>3-5</b>	<b>Pricing Structure</b> Portfolio Choice and the determination of Interest Rates Structure of Interest Rates The Foreign	H: Ch. 4 (76-79) H: Ch. 5 (85-91) H: C. 6 (102-120) H: Ch. 7 H: Ch. 8 (158-79)	Some discussion on interest rates and exchange in Pakistan's context.



## Lahore University of Management Sciences

	Exchange Markets and Exchange Rates		
6-7	<b>Monetary Policy Analysis</b> Monetary Policy Tools The Conduct of Monetary Policy Rules versus Discretion Transmission Mechanism	H: Ch. 20 H: Ch. 21 H: 26 ◆ 28; Readings; Notes	SBP's monetary policy statement, price stability through inflation targeting, transmission mechanism in Pakistan.
8	<b>Economics of Banking</b> Introduction/Role of Commercial Banks/Economics of Banking/ Traditional Banking	RH: Ch 1 JS (Ch 2: 26-31, 40-44; Ch 3: 71-78) MV (Ch.2: 26-33)	Commercial banking industry in Pakistan. Islamic versus traditional banking.
9	<b>Asymmetric Information in Financial Markets</b> Information Asymmetry/Market of Lemons/Moral Hazard/Adverse Selection/Why to regulate?	M (Ch. 8)	
10	<b>Bank Regulations and the Role of Central Bank</b> Role of Central Bank as Bank Regulator; Deposit Insurance/Lender of Last Resort/ Branching Regulations/Foreign Banks Entry Regulations; Capital Adequacy & Regulating Cyberbanking	RH: Ch. 2 MV (Ch.2: 33-46) TFC (Ch 6) Handout and Notes	SBP as a regulator; response to crisis. Is there a deposit insurance in Pakistan?
10	The Bank's Balance Sheet (Assets Liabilities)/Components of Income Statement	RH: Ch. 5 Handout and Notes	Review annual report of a major domestic bank.
11	Measuring and Evaluating Bank Performance	RH: Ch. 6 Handout and Notes	Review annual report of a major domestic bank.
12-14	<b>Risk Evaluation and Bank Management Strategies</b> Asset-Liability Management Interest Rate Risk Management Investment Management Liquidity Management	RH: Ch. 7 Ch. 8 (266-72) RH: Ch. 10 (318-337); Ch. 11 HS: Ch. 10 (172-82) Handout and Notes	

### Textbook(s)/Supplementary Readings

#### Main Textbooks:

1. R. Glenn Hubbard (GH), Money, the Financial System and the Economy, 6th edition, Addison-Wesley, 2008.
2. Peter S. Rose and Sylvia C. Hudgins (RH), Bank Management and Financial Services, 8th Edition, McGraw-Hill, 2010.

#### Supplementary Resources:

1. Mishkin, .FS, (FM), The Economics of Money, Banking and Financial Markets, 8th edition, Addison-Wesley, 2007 (FM).
2. McCallam, Bennett T. (BM), Monetary Economics: Theory and Policy, Macmillan Publishing Company, 1989, pp. 67-71.
3. Khalid, Ahmed M. (2005), Is inflation targeting the best policy choice for emerging economies? A survey of



## Lahore University of Management Sciences

- emerging market experiences and lessons for Pakistan, SBP Research Bulletin, Volume 2, Number 1, 145-65.
4. Khalid, Ahmed M. (1999), Modelling money demand in open economies: The case of selected Asian countries, *Applied Economics*, VOL 3 1, September, 1129-1135.
  5. Khan, Mohsin S (2003), Current issues in the design and conduct of monetary policy, IMF Working paper WP/03/56, March.
  6. McCallum, Bennett T (2003), Misconceptions regarding Rules vs. Discretion for monetary policy, NBER, December.
  7. Mishkin, Frederic S (2001), Transmission mechanism and the role of asset prices in monetary policy, NBER Working Paper 8617, December.
  8. Mishkin, Frederic S (2011), Monetary policy strategy: Lessons from the crisis, NBER Working Paper 16755, February.
  9. Miller, Roger LeRoy and David VanHoose (2001), Banking in the New Cyberworld, Money, Banking and Financial Markets, Southwestern, 33-46.
  10. Miskin, F.S, (2007), An economic analysis of financial structure, The Economics of Money, Banking and Financial Markets, 8th edition, Addison-Wesley, 181-209.
  11. Miskin, F.S, (2007), Economic analysis of banking regulations, The Economics of Money, Banking and Financial Markets, 8th edition, Addison-Wesley, 279-282.
  12. Sinkey, Joseph, F Jr.(2002), Drivers of change, innovation, and consolidation in the financial-services industry, Commercial Bank Financial Management, 6th Edition, Prentice Hall, 26-57.
  13. Sinkey, Joseph, F Jr.(2002), Technology in banking: E-Money, E-Banking, and E-Commerce, Commercial Bank Financial Management, 6th Edition, Prentice Hall, 71-86.