ECON 3313
Money and Banking

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# Tests

<table>
<thead>
<tr>
<th>Exam</th>
<th>Points</th>
<th>Date and time</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>30</td>
<td>Tuesday, February 16, during class time</td>
</tr>
<tr>
<td>II</td>
<td>30</td>
<td>Tuesday, March 23, during class time</td>
</tr>
<tr>
<td>III</td>
<td>45</td>
<td>Tuesday, May 3, 10:00-11:50am</td>
</tr>
</tbody>
</table>
Grading

- The final grade will be composed of 85 points
- Your worst performance will have a relatively lower weight
- This way, you don’t get penalized for one bad exam

<table>
<thead>
<tr>
<th>Exam</th>
<th>Exam I is your worst performance</th>
<th>Exam II is your worst performance</th>
<th>Exam III is your worst performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>10</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>II</td>
<td>30</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>III</td>
<td>45</td>
<td>45</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>85</td>
<td>85</td>
</tr>
</tbody>
</table>

Homework-Quiz

- **myeocnlab** ([www.myeconlab.com](http://www.myeconlab.com))
  - Course ID (check your syllabus)
- Quiz: 15 points (15% of your grade)
- Homework: Not part of final grade. But,
  - Complete homework
  - Make 60%
  - To be eligible for the quiz
- Homework: unlimited attempts
- Quiz: 2 attempts
Grade Distribution

The grading scale is as follows:

A: 90% and above
B: 80-89%
C: 70-79%
D: 60-69%
F: below 60%

There is no curving or automatic rounding up of final averages.

Important for this Course

- Elementary Mathematics
  
  Equations & inequalities, Functions & relations
  
  example: \( y = f(x) = a + b \cdot x \); \( y \geq x \); \( y \propto (1/x) \)

- Graphs are friends **not** foes

- Logical Deduction
  
  If \( x \) is greater than \( y \) and \( z \) is smaller than \( x \), then we can’t say if \( z \) is greater than, equal to, or smaller than \( y \)
Instruction Strategy

- Read the relevant parts of the textbook and the lecture note that are available on the course website BEFORE coming to the class.
- The objective of the class is to emphasize the key concepts and reinforce what you have studied.
- It will be difficult to follow the class without familiarity with the days reading materials.
- Ask questions: easiest way to clarify doubts.
- Do not miss classes.
- Review after each class.
- Review the homeworks and quizzes and exploit the online resources

Classroom Etiquette

- Turn off your cell phones and other electronic devices (such as iPod, MP3 player etc.) before coming to class.
- If you leave class to talk on your cell phone you are not allowed to return to class.
- Academic Integrity
  http://academicintegrity.okstate.edu
Course Website

Go to http://spears.okstate.edu/home/munasib/
Then click “Teaching”, Click “Money and Banking”.

- Lecture slides
- Additional materials and handouts
- Announcements

Why Study Money & Banking?

- Individuals financial decisions
  - Buying a car
  - Being a homeowner
  - Going to the job market
  - Understanding what’s going on

- The economy
  - Functioning of the economy in the short-run
  - Growth of the economy in the long-run
We’ll Focus On

• What is money? What is its role in the economy?
• Financial markets: markets for bonds, stocks, and foreign exchanges.
• Financial Institutions: banks, insurance companies, mutual funds, etc.
And, most importantly,
• What are macroeconomic implications of money, financial markets and financial institutions?

Recap:
Remember from ‘Principles’?

- Rationality and Incentives
- Opportunity costs
- The difference between movements along the curve and shifts of curves
- Demand and Supply
- Market Equilibrium
- Models in Economics
The Generic Macro Model

- Agents: who make economic decisions
  - **Households**: Maximize utility
  - **Firms**: Maximize profits
  - **Government**: Taxes, Public goods, Policies
  - **Rest of the world**: Trade
- Market: where agents interact
- Equilibrium
  - where the market ‘tends’ to go (uniqueness)
  - and ‘tends’ to stay put (stability)

Gross Domestic Product

Firms hire factors of production from households. The blue flow, $Y$, shows total income paid by firms to households.
Gross Domestic Product

Households buy consumer goods and services. The red flow, $C$, shows consumption expenditures.

Gross Domestic Product

Households save, $S$, and pay taxes, $T$. Firms borrow some of what households save to finance their investment.
Gross Domestic Product

Firms buy capital goods from other firms. The red flow represents this investment expenditure by firms.

Gross Domestic Product

Governments buy goods and services, $G$, and borrow or repay debt if spending exceeds or is less than taxes.
Gross Domestic Product

The rest of the world buys goods and services from us, $X$, and sells us goods and services, $M$. Net exports are $X - M$.

Gross Domestic Product

And the rest of the world borrows from us or lends to us depending on whether net exports are positive or negative.
Gross Domestic Product

The blue and red flows are the circular flow of expenditure and income. The green flows are borrowing and lending.

Gross Domestic Product

The sum of the red flows equals the blue flow.
National Income Accounting

And, therefore, \( Y = C + I + G + X - M \).
Key Events in Recent US History

- 1929--1939: The great depression
- 1933--1945: FDR administration
- 1941--1945: U.S. participation in WW II
- 1945--1952: Truman administration
- 1946: Employment act
  (Council of economic advisors created, etc.)
- 1952: Price stabilization act
- 1950--1953: Korean war
- 1953--1960: Eisenhower administration
- 1961--1968: Kennedy-Johnson administrations
  (Civil rights movement begins)
- 1966--1974: Vietnam war, Civil rights continues
- 1973--1974: First oil price shock (recession)
- 1977--1980: Carter administration
- 1980: Iran Seizes US Hostages
- 1981: $180 Billion Arms Build Up
- 1985: US Becomes a Debtor Nation
- 1985: Reagan Tax Reform
- 1986: Iran-Contra deal unearthed
Key Events in Recent US History

- 1989--1992: George Bush Administration
- 1990: Gulf war: Coalition Frees Kuwait
- 1993: 2000: Clinton Administration
- 1994: Republicans Control Congress
- 1995: Mexico Bailout
- 2000: George Bush Jr. Elected President
- 2001: Large Tax Cut Passed
- 2001: 9/11 Terrorist Attack on NYC & the Pentagon
- 2001: War in Afghanistan begins
- 2003: Iraq war begins
- 2004: George Bush Jr. Reelected
- 2005: Hurricane Katrina Devastates Gulf Coast

A Few Definitions

**Aggregate Output**
Gross Domestic Product (GDP) = Value of all final goods and services produced in domestic economy during year

**Aggregate Income**
Total income of factors of production (land, capital, labor) during year

**Distinction Between Nominal and Real**
Nominal = values measured using current prices
Real = quantities, measured with constant prices

**Aggregate Price Level**
GDP Deflator = \( \frac{\text{nominal GDP}}{\text{real GDP}} \)
GDP Deflator = \( \frac{$10 \text{ trillion}}{$9 \text{ trillion}} = 1.11 \)
Consumer Price Index (CPI) price of “basket” of goods and services
A Few Definitions

Growth Rates and the Inflation Rate

Growth Rate = \frac{x_t - x_{t-1}}{x_{t-1}} \times 100

GDP Growth Rate = \frac{\$9.5 \text{ trillion} - \$9 \text{ trillion}}{\$9 \text{ trillion}} \times 100 = 5.6\%

Inflation Rate = \frac{113 - 111}{111} \times 100 = 1.8\%