

FINANCIAL INSTITUTIONS AND POLICY

Course Outline

Winter 2021

Financial Instit course outl Winter-2021 1/16/2021 11:58 AM

Professor: H. Moussa

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Introduction

Welcome to this course on Financial Institutions and Policy.

Financial institutions play a major role in facilitating trade and promotion of efficient allocation of resources nationally and internationally. Well functioning financial institutions and financial markets contribute significantly to improvements in average standards of living. Badly managed financial institutions and financial markets are a heavy burden on economic development and social welfare. They retard economic development and create catastrophic economic disturbances.

In the first part of this course, we study the characteristics of both the well functioning and the badly managed financial institutions and financial markets. Although we can rely on the invisible hand to promote well functioning financial institutions and financial markets, unfortunately more often than not this is not the case. For the invisible hand to work properly, it needs perfect information. However, financial institutions and markets are in the business of providing information and keeping track of it. Thus, it is impossible for the invisible hand to guide them properly since it relies on self interest and the information they collect. The managers and owners of financial institutions and markets are constantly in situations of conflict of interest. There is a need to create checks and balances to prevent the conflict of interest from derailing the invisible hand. This is the role of economic policy.

In the second part of this course, we study the design of economic policy mechanisms that promote the well functioning of financial of institutions and financial markets including foreign exchange markets, learning from past mistakes with the help of the study of current and past real world national and international financial arrangements.

Recommended Textbook: F. S. Mishkin and A. Serletis, MS, "The Economics of Money, Banking and Financial Markets" Pearson Seventh Canadian Edition

Topics Schedule

| Week | Topic | MS (7th) | MS (Old) |
|-------------------------------|---|----------|----------|
| Week 1: Jan 18-Jan 22 | Financial intermediation and its economic costs | 8 | 8 |
| Week 2: Jan 25- Jan 29 | Financial intermediation and its economic costs | 11 | 9 |
| Week 3: Feb 1- Feb 5 | Performance of Banking industry | 10, 12 | 11, 13 |
| Week 4: Feb 8- Feb 12 | Protecting the financial system against itself: Financial Regulations | 9 | 10 |
| Week 5: Feb 15- Feb 19 | Winter Study Break | | |
| Week 6: Feb 22-Feb 26 | Protecting the protector: Central banks and Politicians | 14 | 15 |
| Week 7: Mar 1 – March 5 | Money Supply | 15 | 16 |
| Week 8: Mar 8 - Mar 12 | Tools of monetary policy and Monetary policy goals | 16, 17 | 17, 18 |
| Week 9: Mar 15 - Mar 19 | Inflation and the demand for money | 20 | 21 |
| Week 10: Mar 22– Mar 26 | Equilibrium in the products market, IS curve | 21 | 22 |
| Week 11: Mar 29–Apr 2 | The aggregate demand curve | 22 | 23 |
| Week 12: Apr 5 – Apr 9 | Keynesian equilibrium | 23 | 24 |
| Week 13: Apr 12 – Apr 13 | Application of Monetary policy | 24,25 | 25,26 |

Marking system

| | Date | Grading System |
|--------------|------------------------------|----------------|
| Test 1 | February 10, 2021 | 7.5 |
| Test 2 | March 31, 2021 | 7.5 |
| Midterm Exam | March 10, 2021 | 30 |
| Assignments | See Schedule Below | 15 |
| Final Exam | See registrar's schedule | 30 |
| Paper | Final version: April 9, 2021 | 10 |

Assignment Schedule

| Assignment | Date of Distribution | Due date |
|------------|----------------------|-------------------|
| 1 | February 1, 2021 | February 8, 2021 |
| 2 | February 13, 2021 | February 22, 2021 |
| 3 | March 15, 2021 | March 24, 2021 |

Assignments must be handed in at the beginning of the class of the due date day.