

FINANCIAL INSTITUTIONS AND POLICY

Course Outline

Winter 2017

Financial_Instit_course_ou_win-2017 1/25/2017 11:27 AM

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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, "The Economics of Money, Banking and Financial Markets" Pearson Fifth Canadian Edition

Topics Schedule

Week	Topic	BP
Week 1: Jan 11-Jan 13	Financial intermediation and its economic costs	8
Week 2: Jan 16- Jan 20	Performance of Financial Institutions	11, 13
Week 3: Jan 23 - Jan 27	Non-banking financial institutions	12
Week 4: Jan 30- Feb 3	Protecting the financial system against itself: Financial institutions Regulations	10
Week 5: Feb 6 – Feb 10	Protecting the protector: Central banks and Politicians	15
Week 6: Feb 13-Feb 17	Money Supply	16
Week 7: Feb 20- Feb 24	Study Break	
Week 8: Feb 27– March 3	Tools of monetary policy and Monetary policy goals	17,18
Week 9: Mar 6 – March 10	Inflation and the demand for money	21
Week 10: Mar 13 Mar 17	IS curve	22
Week 11: Mar 20– Mar 24	The aggregate demand curve	23
Week 12: Mar 27– March 31	Keynesian equilibrium	24
Week 13: Apr 3 – Apr 7	Application of Monetary policy	25,26
April 07	End of classes	

Marking system

	Date	Grading System
Test 1	February 6, 2017	7.5
Test 2	March 29, 2017	7.5
Midterm Exam	March 1, 2017	30
Assignments	See Schedule Below	12
Final Exam	See registrar's schedule	35
Paper	Final version: April 6, 2017	8

Assignment Schedule

Assignment	Date of Distribution	Due date
1	January 23, 2017	January 30, 2017
2	February 8, 2017	Feb 15, 2017
3	March 13, 2017	March 20, 2017

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