Syllabus
Spring 2011

The structure of the financial system and the role of central banks are often in the news as countries cope with financial crises and macroeconomic problems. This course is an MBA elective that examines the structure of financial systems from the perspectives of both financial and macroeconomic stability. Several broad questions will be addressed over the course of the semester:

- Why is monetary policy important?
- How is monetary policy conducted?
- How is monetary policy transmitted to the economy?
- How is the financial system organized?
- Why and how do countries regulate the financial sector?
- How is financial regulation evolving?
- How do financial regulation and central bank policy relate?

The course will involve a combination of lecture, discussion and case analysis.

Course Schedule. B30.2333.20 will meet on Mondays and Wednesdays between 10:30am and 11:50am.


The materials in this book, combined with current events, will form the core of what is covered in class meetings. We will frequently begin classes by discussing current events. Your participation is strongly encouraged.

Other Course Materials. There is a wealth of materials that will be available on Blackboard, including any course readings not found in the textbook. Powerpoint slides for the lectures will be distributed in class. Students are expected to keep informed about monetary policy developments around the world and may do so by becoming regular readers of the Financial Times, The Wall Street Journal, or The Economist.

Course Requirements and Grades. Course grades will be based on a mix of problem sets (totaling around 30%) and two in-class examinations (midterm and final examination representing around 30% each). At the start of the semester, I may choose to substitute a final take-home paper (of less than 10 pages) for the final examination. Attendance and class participation also will contribute to the grade (around 10%). There will be no make-up examinations. Consistent with Stern policies, no more than 35% of the students will receive a course grade of A or A-.
**Honor Code.** At Stern we believe that honesty and integrity are necessary for a rewarding educational experience. These qualities form the basis for the trust among members of the community (students, faculty, and administrators) that is essential for educational excellence. The Honor Code was instituted several years ago by students, and requires each student to act with integrity in all academic activities and to hold his or her peers to the same standard. In this course, you may discuss assignments with other students, but any work submitted for a grade should be your own and should identify other students with whom you discussed the assignment.

We also hold ourselves to a high standard of professional behavior. Lateness, cellphones, private conversations, browsing the internet, checking your email, and any other behavior that disrupts the class will be considered inappropriate. Repeated violations of this standard will affect your grade.

**Rough Course Outline**

**Week 1**

Introduction, Money and Financial Institutions

*Questions:*
Why is financial development related to economic development?
How and why are financial institutions evolving?

**Week 2**

Economics of Financial Intermediation

*Questions:*
How do financial institutions earn profit?
What accounts for shifts between bank finance and other types of finance?
What makes financial institutions vulnerable?

**Week 3**

Financial Industry Structure and Regulation (I)

*Questions:*
Why are there so many banks in the United States?
What is the lender of last resort?
Do we need the government safety net?
How is regulation structured in different countries?
Week 4

Regulation (II)

Questions:
What is systemic risk and how can regulators address it?
How will the global financial crisis affect regulation going forward?

Week 5

Central Banks in the World Today

Questions:
What do central banks do? Do we need them?
How do monetary and fiscal policy differ?
How are the Fed and the ECB similar? How are they different?

Week 6

The Central Bank Balance Sheet and the Money-Supply Process

Questions:
How does an open-market operation work?
How does a foreign exchange intervention work?
Can the central bank control the quantity of money in the economy?

Week 7

Monetary Policy: Stabilizing the Domestic Economy

Questions:
Why do central banks usually choose to control interest rates?
What is inflation targeting? How does it work? How does it relate to the risk of deflation?
What are the arguments for and against targeting a monetary aggregate?

Week 8

Exchange Rate Policy and the Central Bank

Questions:
How are exchange rates and interest rates linked?
Why do some countries choose to fix their exchange rates?
How should we understand China’s exchange rate regime?
Week 9

Output, Inflation and Monetary Policy

Questions:
What is the monetary policy reaction curve?
How do policy changes affect the economy?
What is the short-run aggregate supply curve and why is it upward-sloping?

Week 10

Output, Inflation and Monetary Policy (continued)

Questions:
How does stabilization policy work?
What is the role of policy rules?
What can monetary policy do when interest rates are at zero?
What are “quantitative easing” and “credit easing?”

Week 11

Understanding Business Cycle Fluctuations

Questions:
How has Federal Reserve policy fared in stabilizing the economy?
Why might there be a tradeoff between the volatility of output and inflation?
How is monetary policy transmitted when the financial system is impaired?

Week 12

New Challenges Facing Central Bankers

Questions:
What are the biggest challenges facing monetary policymakers over the next decade?
How should central banks address asset price bubbles?
How should they manage policy near the zero bound?
What is the future of “unconventional monetary policy?”
What is the role of “macroprudential policy?”
Kim Schoenholtz

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<td>B01.2303 The Global Economy</td>
<td>Financial Markets</td>
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<td>B30.2343 Financial Crisis and the Policy Response</td>
<td>Monetary Policy</td>
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<td>B30.2333 Monetary Policy, Banks and Central Banks</td>
<td>Macroeconomics</td>
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<td>C30.0221 Monetary Policy and Banking</td>
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<td>B30.2190 Global Perspectives on Enterprise Systems</td>
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Kim Schoenholtz joined the Economics Department of NYU Stern School of Business as an adjunct professor in 2009. Previously, he was Managing Director and Senior Advisor in Citigroup's Economic and Market Analysis (EMA) department. Schoenholtz served as Citigroup’s global chief economist from 1997 until 2005. After taking a year's leave, he returned in 2006 as a Senior Advisor in EMA.

Mr. Schoenholtz joined Salomon Brothers in 1986. He worked in Bond Market Research in New York before moving to Tokyo in 1988. As Director of EMA in Tokyo, he shared responsibility for Salomon’s view on the Japanese economy and markets. In 1992, he transferred to London to serve as the head of EMA in Europe. He was named Salomon's chief economist in 1997, and subsequently became chief economist at Salomon Smith Barney and at Citigroup. Schoenholtz returned to New York in this role in 1999.

Schoenholtz was a Visiting Scholar at the Bank of Japan's Institute for Monetary and Economic Studies from 1983 to 1985. He received an M.Phil. in economics from Yale University in 1982 and an A.B. from Brown University in 1977. He also studied for one year in Marburg, Germany. He has served as a member of the Executive Committee of the Centre for Economic Policy Research and is currently a panel member of the U.S. Monetary Policy Forum.