

City University of Hong Kong

Information on a Course
offered by the Department of Economics and Finance
with effect from Semester A in 2013 / 2014

Part I

Course Title: Monetary and Financial Systems

Course Code: EF5342

Course Duration: 13 weeks

No. of Credit Units: 3

Level: P5

Prerequisites: Nil

Precursors: EF5042 Corporate Finance, EF5052 Investments

Equivalent Courses: EF5364 Commercial Banking and Financial Systems

Exclusive Courses: Nil

Part II

1. Course Aims:

The objective of the course is to provide students with a framework to understand the operations of the major monetary and financial systems and their general equilibrium effects on an aggregate economy. The course encourages students to understand the macroeconomic effects of financial frictions. In particular, to understand causes of financial crises, students will see various factors in financial markets that significantly affect real economic activities. The course will develop student abilities to critically evaluate and formulate economics policies by applying empirical evidence and relevant theoretical models regarding monetary and financial systems.

Course Intended Learning Outcomes (CILOs)

Upon successful completion of this course, students should be able to:

No.	CILOs	Weighting (if applicable)
1.	know the current development of the major financial sector around the world	
2.	identify factors that affect the financial sector and understand the mechanism that causes financial market imperfections.	
3.	Develop bank-run models to understand why the regulations on a financial sector are important and, in addition, to see the limitations of the regulations.	
4.	Understand how public debt affects real economic activity empirically and theoretically.	
5.	Develop macroeconomic models dealing with business cycles, asset bubbles, and financial crises.	

Teaching and Learning Activities (TLAs)

(Indicative of likely activities and tasks designed to facilitate students' achievement of the CILOs. Final details will be provided to students in their first week of attendance in this course)

CILO No.	TLAs	Hours/week (if applicable)
CILO 1	Lecture: The lecture introduces stylized facts regarding private credit and debt around the world and its impacts on economic growth.	
CILO 2	Lecture, in-class discussion, assignments: The lecture will cover microfoundations for financial market imperfections. Through the discussion, students learn concepts of moral hazard and adverse selection occurred in financial markets.	
CILO 3	lecture, in-class discussion, assignments: The lecture will cover bank-run models. Through the discussion, students will understand the importance of the regulations on a financial sector and their limitations.	

CILO 4	lecture, in-class discussion, assignments: The lecture will demonstrate that public debt is likely to have positive and negative impacts on economic performances. Through the discussion, students will understand how the significant increase in public debt reduces economic growth.	
CILO 5	lecture, in-class discussion, assignments: The lecture will develop a dynamic general equilibrium models in which business cycles, asset bubbles, and financial crises appear. Through the discussion, student will understand possible mechanisms that cause financial crises.	

Assessment Tasks/Activities

(Indicative of likely activities and tasks designed to assess how well the students achieve the CILOs. Final details will be provided to students in their first week of attendance in this course)

CILO No.	Type of Assessment Tasks/Activities	Weighting (if applicable)	Remarks
CILO 1	Midterm exams, final exam, assignments		
CILO 2	Midterm exams, final exam, assignments		
CILO 3	Midterm exams, final exam, assignments		
CILO 4	Midterm exams, final exam, assignments		
CILO 5	Midterm exams, final exam, assignments		

Assessment Methods

	Coursework	Final Exam	Total
CILO 1-5	50%	50% (one 3-hour exam)	100%

Grading of Student Achievement:

Refer to Grading of Courses in the Academic Regulations for Taught Postgraduate Degrees.

Part III

Keyword Syllabus

Financial systems, financial sector, bank run, financial crisis, macro-economy, transmission mechanism, outside money, inside money, financial intermediation, financial market imperfections, incomplete markets, moral hazard, adverse selection

Recommended Reading

1. Allen, Franklin & Douglas Gale, 1998. "Optimal Financial Crises," *Journal of Finance*, American Finance Association, vol. 53(4), pages 1245-1284.
2. Bernanke, Ben & Gertler, Mark, 1989. "Agency Costs, Net Worth, and Business Fluctuations," *American Economic Review*, American Economic Association, vol. 79(1), pages 14-31, March.
3. Diamond, Douglas W & Dybvig, Philip H, 1983. "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, University of Chicago Press, vol. 91(3), pages 401-19, June.
4. Kiyotaki, Nobuhiro & Moore, John, 1997. "Credit Cycles," *Journal of Political Economy*, University of Chicago Press, vol. 105(2), pages 211-48, April.
5. Williamson, Stephen D, 1987. "Costly Monitoring, Loan Contracts, and Equilibrium Credit Rationing," *The Quarterly Journal of Economics*, MIT Press, vol. 102(1), pages 135-45, February.

Textbook

Champ, Bruce, Freeman, Scott, and Haslag, Joseph, 2011. "Modeling Monetary Economies," Cambridge Books, Cambridge University Press.

Online Resources