

Lecture 1

Money and Banking, Econ 345

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Welcome to Econ 345: Money and Banking

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- Classrom: Buchanan building, B213
- Lecture: MWF, 15:00-16:00
- Office hours: M, 16:00-17:00
- Course web page: <http://www.kryvtsov.com/teaching/>
- Schedule will be posted
- I will appreciate feedback on my teaching

Money

- Why do people use money?
- How are prices determined? Where does inflation come from?
- How does the quantity of money affect the welfare of people?
- How is the exchange rate determined?

Banking

- Why does money coexist with assets that give higher return?
- How do banks intermediate assets into money?
- How does the central bank manage the money supply?
- What is the relationship between interest rates and inflation?
money and output?

Selected topics (if time allows)

- Recent global financial crisis
- Hyperinflation in Ukraine
- Other topics? (email me your suggestions)

Textbooks and reading

- Champ-Freeman (required)
- Mishkin-Serletis (recommended)
- Other materials: internet, Economist, WSJ, Financial Times

Assignments and Grading

- Assignments:
 - 5 homework assignments (5 points each), best 4 of which will count towards the final grade (20 points total)
 - 2 midterm examinations (20 points each, 40 points total)
 - Final examination (40 points).
- Bailout clause: the lowest of 2 midterms and half of final exam is replaced with the second lowest
- Grades are according to UBC grading practice:

90-100: A+	85-89: A	80-84: A-		
76-79: B+	72-75: B	68-71: B-		
64-67: C+	60-63: C	55-59: C-	50-54: D	0-49: F

Structure of each lecture

- Question and its relevance for our class
- Answer
- Example or Problem
- Practical example
- Summary and Conclusion

Model of money

Why need a model?

- To understand mechanisms behind money
- Can use model to make predictions for output, prices, interest rates after changes that involve monetary policy

What elements should model include?

- Money has no intrinsic value: but we value it because we can pay (exchange it) for consumption goods ("medium of exchange"). So why not exchange consumption goods directly?
 - Example: Ali is a good sushi chef, Oleksiy knows economics. Each likes consuming both sushi and economics, i.e., Oleksiy may be willing to tutor economics to Ali in exchange for some sushi. "Double coincidence of wants".
1. Need a feature of goods market that prohibits individuals from trading goods directly.
 2. Someone must want to hold money before it is spent