



# ECON350

## Money and Finance

S1 Evening 2014

*Economics*

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## General Information

Unit convenor and teaching staff

Unit Convenor

Sean Turnell

[sean.turnell@mq.edu.au](mailto:sean.turnell@mq.edu.au)

Contact via [sean.turnell@mq.edu.au](mailto:sean.turnell@mq.edu.au)

E4A 426

Available on iLearn

Credit points

3

Prerequisites

6cp at 200 level including (ECON200 or ECON201 or ECON203 or ECON204)

Corequisites

Co-badged status

Unit description

This unit provides a review and analysis of the role and characteristics of financial markets, institutions, and the instruments they trade. The workings of the Australian financial system are explored, but the unit is also very global in focus. Money and finance are examined both in terms of theoretical foundations and in practical application, and there is a strong preference for the use of history as a vehicle for providing perspective and insight. Topics include: the meaning and nature of money; techniques of selling and pricing securities; rational expectations; efficient markets; the innovations of behavioural finance; arbitrage and speculation; and in-depth analyses of the functions and features of money markets, bond markets, equity markets and the actions and presumptions of monetary authorities. The central theme of the unit is that innovation in money and finance has been as important as innovation anywhere else in shaping the modern world.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

To be open to new (and old!) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.

To demonstrate a capacity to work independently including the ability to plan and achieve goals.

To identify, define and analyse problems and recommend creative solutions within real-world constraints.

To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.

To be intellectually ready to participate in public policy discussions arising in social, business and policy environments.

To manage, analyse, evaluate and use information efficiently and effectively.

## Assessment Tasks

Name	Weighting	Due
<a href="#">Review Exercise</a>	20%	4 pm Thursday 2nd April.
<a href="#">Class Test</a>	20%	Week 9
<a href="#">Final Examination</a>	60%	University Examination Period

### Review Exercise

Due: **4 pm Thursday 2nd April.**

Weighting: **20%**

Write a 1600 word summary and evaluation of **one** of the two articles listed below. A "review essay" is a summary of your own words of the article you have chosen to review, together with an appraisal of it. Your review essay should be about 50% summary and 50% appraisal. Summary means you summarize the main points and explain the chosen article in your own words. Figures, tables, or equations in the article may not be included in your essay. Appraisal means you express your thoughts about the article. For example, whether the article is full of insightful remarks, whether the article gives adequate consideration/analysis of the main issues, or if the article covers too much or too little ground, any additional aspects should be included in the article. Your bibliography can be minimal.

#### Submission

The Review Exercise must be submitted in the relevant box in BESS by 4pm on Thursday 2 April, 2014.

Before the due date and time assignments must also be submitted through 'Turnitin'. Assignments not submitted through this programme will receive zero marks.

#### Extension

Genuine and documented cases of illness and misadventure may allow for an extension of the due date, but no other circumstances will allow for this.

## Penalties

Severe penalties will apply for cases of plagiarism, up to and including exclusion from the unit.

Penalties will also apply for late submission of the Review Exercise. Such penalties will include the loss of 2 marks (out of the 20 awarded for the exercise) for any assignment submitted after 4.00pm on Thursday 2 April, and then 2 marks further for each day beyond the submission date after that.

## The Articles:

1. Shiller, R. 2002, 'From Efficient Market Theory to Behavioural Finance', *Cowles Foundation Discussion Paper No.1385*, <[aida.wss.yale.edu/~shiller/pubs/p1055.pdf](http://aida.wss.yale.edu/~shiller/pubs/p1055.pdf)>
2. Orphanides, A. 2013, 'Is Monetary Policy Overburdened?', *Federal Reserve Bank of Boston, Public Policy Discussion Papers, No.13-8*, download from <<http://www.bostonfed.org/economic/ppdp/>>

On successful completion you will be able to:

- To be open to new (and old!) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To demonstrate a capacity to work independently including the ability to plan and achieve goals.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To be intellectually ready to participate in public policy discussions arising in social, business and policy environments.
- To manage, analyse, evaluate and use information efficiently and effectively.

## Class Test

Due: **Week 9**

Weighting: **20%**

In week 9 there will be a Class Test for all students in Econ 350. This test will consist of true/false questions.

The test will take place in lectures and, as such, you are required to attend the Test according to the lecture stream in which you are enrolled. The tests for both streams (ie, day and evening) cover the same material, but the questions are completely different. There will be no advantages to anyone having access to the questions asked in the other stream, or even from discussing these with other students (as you will see).

Normal examination conditions will apply of course, and you must bring with you your official University ID card.

No supplementary class tests will be granted. In documented cases of illness and misadventure

(which will be rigorously assessed), the marks at stake for the class test will be transferred for assessment to the final exam.

On successful completion you will be able to:

- To identify, define and analyse problems and recommend creative solutions within real-world constraints.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.

## Final Examination

Due: **University Examination Period**

Weighting: **60%**

The final examination will consist of true/false and essay-type questions. Further details relating to the number of questions and so on will be given closer to the Exam.

This two hour final exam will be held during the University Examination period.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations:

<http://www.exams.mq.edu.au/>

The only exception to not sitting an examination at the designated time is because of **documented** illness or **unavoidable** disruption. In these circumstances you may consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at: <http://www.reg.mq.edu.au/Forms/APSCon.pdf>

If a Supplementary Examination is granted as a result of the Special Consideration process, the examination will be scheduled after the conclusion of the official examination period.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

In the unlikely event of documented illness or misadventure a supplementary exam **may** be awarded. Such an exam would consist of essay-type questions only.

On successful completion you will be able to:

- To be open to new (and old!) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To identify, define and analyse problems and recommend creative solutions within real-

world constraints.

- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To manage, analyse, evaluate and use information efficiently and effectively.

## **Delivery and Resources**

### **Classes**

Students attend three classroom hours per week (in one block), comprising lectures using a mix of theory and practical applications, delivered in First Semester, and in both day and evening sessions.

The day lectures take place on: Fridays, 1 to 4 pm. W6D Lotus Theatre

The evening lectures take place on: Wednesdays, 6 – 9 p.m. Price Theatre

Of course, you only have to attend one of these sessions! If you are ever in doubt about timetabling and class times and places, see the

University's website: <http://www.timetables.mq.edu.au/>

Students are expected to attend the full quota of lectures; all the material covered in class is examinable.

It is my expectation that the lectures of Econ 350 will be recorded on the University's i-Lecture facility. This can be found at: <http://ilearn.mq.edu.au>

Because of the timing of Easter (Good Friday) there will be NO lectures in week 5.

### **Prizes**

The best performing student in Econ 350 is honoured with the 'Australian Finance Conference Prize for Money and Finance'. It is open to all students proceeding to a Bachelor's degree, and is bestowed at the Faculty's prize evening later in the year.

## **Required and Recommended Texts and/or Materials**

There is no set textbook for Econ 350.

A very useful book for this course (as it is for the 'sister unit', Econ 335, The Economics of Financial Institutions) is Kidwell, D. et al. 2012, Financial Markets, Institutions and Money (11th edn), John Wiley & Sons, Milton, Qld.

Also useful for this course is Niall Ferguson's 'The Ascent of Money', which was published in late 2008 by Allen Lane (Penguin), London. This book provides an overview of the history of money and finance – indeed, its subtitle is 'A Financial History of the World'. What makes this different to most books recommended for courses such as this is that it is also great fun to read – full of drama, violence, scandal, passion, crime, and so on – in short, all the things that really drive money and finance. It takes its story all the way up to mid-2008. A television series on the book was also made in 2008, and broadcast on the ABC (and it is available on DVD). Also, there

is an interview with Ferguson about the book on the web. This interview ('Afterwords: Niall Ferguson author of 'The Ascent of Money: A Financial History of the World' interviewed by Adrian Woolridge, Washington bureau chief for The Economist') appeared on the US public broadcaster 'C-SPAN' (on November 17, 2008). To find it, simply go to the C-Span website ([www.c-span.org](http://www.c-span.org)) and type in the title above (or, of course, use Google).

At the more 'technical' level, some other 'standard' finance textbooks are quite good. These include:

Valentine, T. et al. 2011, Financial Markets and Institutions in Australia, Pearson, Frenchs Forest, NSW

Howells, P. and Bain, K. 2007, Financial Markets and Institutions, 5th edn, Financial Times/Prentice Hall, Harlow, UK.

Hunt, B. and Terry, C. 2008, Financial Institutions and Markets, 5th edn, Thomson, Melbourne.

## Technology Used and Required

iLearn; i-Lecture

## Learning and Teaching Activities

As noted above, this unit is taught via three hours of lectures per week. In terms of student activity in relation to this, it is suggested that lecture slides and/or any readings be read in advance. Meanwhile, keeping up to speed on events impacting financial institutions and markets will be highly advantageous.

## Unit Schedule

Lecture Topics
<b>Topic 1: Introduction</b> Kidwell, Ch.1; Hunt and Terry, Ch.1, Ch.5; Howells and Bain, Ch.1; Valentine, Ch.1; Ferguson, introduction.
<b>Topic 2: The Evolution of Money in Theory and Practice</b> Ferguson, passim; Davies, Glyn, 1994 & 2002, A History of Money, University of Wales; Press, Cardiff. There are significant web resources for this book. These can be found at: <a href="http://projects.exeter.ac.uk/RDavies/arian/llyfr.html">http://projects.exeter.ac.uk/RDavies/arian/llyfr.html</a> The following web resource, 'Alexander Hamilton on the Web', may be of interest: <a href="http://www.isidore-of-seville.com/hamilton/">http://www.isidore-of-seville.com/hamilton/</a> Also of potential interest is an interview with Ron Chernow (biographer of Alexander Hamilton above) At the Hoover Institution, Stanford University, on 'YouTube': <a href="http://www.youtube.com/watch?v=mAooMjUlinY">http://www.youtube.com/watch?v=mAooMjUlinY</a> And another on C-Span at: <a href="http://www.c-spanvideo.org/program/182317-3">http://www.c-spanvideo.org/program/182317-3</a>

**Topic 3: Interest Rates: Their Theory and Structure**

Kidwell, Ch.4, Ch. 6;

Valentine, Ch. 7

**Topic 4: Central Banking and Monetary Policy**

Kidwell, Ch.2, Ch.3

RBA Website, [www.rba.gov.au](http://www.rba.gov.au)

**Topic 5: Money Markets**

Kidwell, Ch.7

Valentine, Ch.2

Hunt and Terry, Ch.7

Howells and Bain, Ch.5

**Topic 6: Bond Markets**

Kidwell, Ch.5, Ch.8;

Ferguson, Ch.2;

Valentine, Ch.2;

Hunt and Terry, Ch.8;

Howells and Bain, Ch.6

**Topic 7: Equity Markets**

Kidwell, Ch.9;

Ferguson, Ch.3;

Valentine, Ch.9;

Hunt and Terry, Ch.9, Ch.10

**Topic 8: Derivatives and Options Markets**

Kidwell, Ch.10

Valentine, Ch.10 & 11

Ferguson, Ch.5

See also C-Span video on Futures:

<http://www.booktv.org/Watch/12203/The+Futures+The+Rise+of+the+Speculator+and+the+Origins+of+the+Worlds+Biggest+Markets.aspx>

**Topic 9: The Efficient Markets Hypothesis and its Critics**

Kidwell, Ch.1

Valentine, pp.245-251



**Topic 10: Behavioural Finance**

Ferguson, Ch.3, Ch.6

Valentine, pp.245-251

And:<http://www.behaviouralfinance.net/>

**Topic 11: The Zeitgeist - Crypto-Currencies, Crime and Terror**

## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy [http://mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy [http://mq.edu.au/policy/docs/grievance\\_management/policy.html](http://mq.edu.au/policy/docs/grievance_management/policy.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](http://www.mq.edu.au/policy/docs/disruption_studies/policy.html) *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: [https://students.mq.edu.au/support/student\\_conduct/](https://students.mq.edu.au/support/student_conduct/)

## Academic Honesty

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at [http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

## Grades

Macquarie University uses the following grades in coursework units of study:

- HD - High Distinction
- D - Distinction
- CR - Credit
- P - Pass
- F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

## Grading Appeals and Final Examination Script Viewing

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

[http://www.businessandeconomics.mq.edu.au/new\\_and\\_current\\_students/undergraduate\\_current\\_students/how\\_do\\_i/grade\\_appeals/](http://www.businessandeconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals/)

## Special Consideration Policy

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

[http://www.mq.edu.au/policy/docs/special\\_consideration/policy.html](http://www.mq.edu.au/policy/docs/special_consideration/policy.html)

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)

- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

### Learning outcomes

- To be open to new (and old!) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To demonstrate a capacity to work independently including the ability to plan and achieve goals.
- To identify, define and analyse problems and recommend creative solutions within real-world constraints.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To be intellectually ready to participate in public policy discussions arising in social, business and policy environments.

- To manage, analyse, evaluate and use information efficiently and effectively.

## Assessment tasks

- Review Exercise
- Class Test
- Final Examination

## Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

## Learning outcomes

- To be open to new (and old!) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To demonstrate a capacity to work independently including the ability to plan and achieve goals.
- To identify, define and analyse problems and recommend creative solutions within real-world constraints.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
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- To manage, analyse, evaluate and use information efficiently and effectively.

## Assessment tasks

- Review Exercise
- Class Test
- Final Examination

## Problem Solving and Research Capability

Our graduates should be capable of researching; of analysing, and interpreting and assessing data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

## **Learning outcomes**

- To be open to new (and old!) ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To demonstrate a capacity to work independently including the ability to plan and achieve goals.
- To identify, define and analyse problems and recommend creative solutions within real-world constraints.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To be intellectually ready to participate in public policy discussions arising in social, business and policy environments.
- To manage, analyse, evaluate and use information efficiently and effectively.

## **Assessment tasks**

- Review Exercise
- Final Examination

## **Effective Communication**

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

## **Learning outcomes**

- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To be intellectually ready to participate in public policy discussions arising in social, business and policy environments.

## **Assessment tasks**

- Review Exercise
- Final Examination

## **Research and Practice**

This unit makes extensive use of Macquarie University researchers, as can be seen from the

reading guide, lecture slides, and elsewhere.