I. Catalog Description

EC 450  Economics of Capital Markets (4)

Further expansion of monetary theory and capital markets topics to prepare students for advanced studies. Intensive focus on the theoretical and mathematical tools necessary for the analysis of bank and financial institution portfolios, and the effectiveness of monetary policy. 4 lectures/problem solving. Prerequisites: EC 201, EC 202, and EC 408.

II. Required Background or Experience

EC 201, EC 202, and EC 408.

III. Expected Outcomes

Students in EC 450 will:

a) develop an understanding of the interrelation between monetary policy and the various markets -- foreign and domestic -- through a discussion of each market,

b) identify the factors that affect the supply and demand for funds and the structure of interest rates,

c) analyze portfolio theory through the use of expected values, utility-risk theory and linear programming,

d) determine the interrelationship of money and goods markets as discussed with the IS-LM model and matrix algebra, and

e) explain how the flow-of-funds theory is used as an analytical tool.

IV. Text and Readings

Readings:


Monthly Federal Reserve Bulletins from the Federal Reserve Banks of San Francisco and St. Louis.

Investors Business Daily


The Wall Street Journal

V. Minimum Student Materials

Textbooks and references.

VI. Minimum College Facilities

Classroom equipped with personal computers.

VII. Course Outline

A. Introduction

1. Federal Reserve System Tools and Goals

2. The Creation of Deposits

3. Aggregate Demand and Supply

4. The Work of Monetary Policy

B. The Asset Market

1. The Structure of Interest Rates
2. Money and Capital Markets -- Foreign and Domestic

3. Financial Instruments and Markets

4. Money and the Stock Market

C. Risk and Utility

1. Expected Values

2. Review of Utility Theory and Consumer Equilibrium

3. Review of Variance-Covariance Matrix

4. Utility-Risk Theory

5. Utility and Portfolio Theory

6. A Linear Programming Approach of Efficient-Portfolio Allocation

D. Present Values and Discounting

1. Buying and Selling Notes

2. Present Value of Bonds

3. Calculation of Returns

4. Public Investment and Present Value

E. Making of Monetary Policy

1. Monetary Policy Markets

2. Keynesians vs Monetarists

3. The Empirical Evidence

F. The IS-LM Model

1. Theoretical Approach
2. Graphical Approach

3. Mathematical Approach

G. Flow of Funds

VIII. Instructional Methods

Lecture/problem-solving sessions with active student participation.

IX. Evaluation of Outcomes

Students complete research on problems involving capital markets and present written and oral reports on their research. In addition, students write a short paper, midterm and final examinations.