

## **Financial Markets and Economic Fluctuations**

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Economics 423  
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### **Goals**

This course examines in some detail the relation between financial markets and macroeconomics, focusing on how economic behavior by agents in financial markets might influence outcomes for other sectors of the economy. The particular topics studied include the institutional characteristics of financial markets, the unique role played by paper money, and supply and demand for financial securities.

### **Prerequisites:**

Completion of Economics 420 and 400.

### **Requirements and Grades**

Each student will complete two midterm exams and a final exam. Grades are on a total points basis. I consider incompletes only under special circumstances (e.g. verifiable health problems) and will not award one simply to extend the due dates. The approximate point distribution will be midterms (50%), and final exam (50%). In addition, the course requirements include homework. While not graded on a formal exam points

basis, the homework is a very important in my assessment of your efforts in this course. Failure to complete the course requirements, including the exams and the homework in a *timely* fashion will result in a reduced or failing grade.

### **Required Reading**

1. Frederic Mishkin, *Money, Banking, and Financial Markets*. including MyEconLab.
2. *The Wall Street Journal*, Section C, "Money and Investing".

## Course Outline

*Foundations of Economics* Supply and Demand Theory of the Firm Theory of the Consumer

*Interest Rates and Asset Values* Analysis of Fixed Income Securities: Mortgages & Bonds Duration and Interest Rate Risk Intertemporal Substitution Inflation and Real Interest Rates

*Exchange Rates* Purchasing Power Parity Interest Rate Parity

*Investment* Business Investment Decisions Student Investment Decisions Production Possibility Frontiers

*Risk* Utility-Based Valuation of Risk Mean-Variance Analysis The Term Structure of Interest Rates Options and Derivative Securities

*Monetary Economics* The Transactions Demand for Money Money Supply in a Fractional Reserve System

*Macro Models* Classical Economics The IS/LM Framework Monetary and Fiscal Policy The Phillips' Curve Aggregate Supply and Demand Rational Expectations The New Classical Economics The IS/MP Model