

Financial Markets and Economic Fluctuations

Professor William Parke
204 Gardner Hall
Office Hours: TT, 2:00-3:00
Telephone: 966-5393
E-mail: parke@email.unc.edu
<http://parke.econ-courses.com>

Economics 423
Spring 2018

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.

Required Paper

Each student will complete a ten page paper on recessions and financial crises. What factors, including, but not limited to, financial crises cause recessions? Do financial crises always cause recessions? What will happen in the future?

We will discuss these topics in class and students are welcome to share ideas, but each student will write their own paper.

Required Reading

1. Frederic Mishkin, Money, Banking, and Financial Markets. including MyEconLab.
2. The Wall Street Journal.

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 exam point distribution will be midterms (50%), and final exam (50%). In addition, the course requirements include the paper and homework. While not graded on a formal exam points basis, the paper and the homework are very important in my assessment of your efforts in this course. The paper, in particular, will enter with a weight approximately equal to half the exam points. Failure to complete the course requirements, including the exams, the paper, and the homework in a *timely* fashion will result in a reduced or failing grade.

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

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

Exchange Rates

- Purchasing Power Parity
- Interest Rate Parity

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

Financial Crises and Recessions