

# ECONOMICS 342: FINANCIAL MARKETS AND MODERN MONEY

Winter 2009

**Professor:** Scott T. Fullwiler, Ph.D.

**Time and Place:** MWF 2:30-3:35pm, WBC 215

**Office Hours:** MTH 1:20-2:20pm and by appointment

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## COURSE DESCRIPTION:

There are two main themes for this course. First is the examination of financial markets, particularly price determination in these markets, using the tools of modern financial theory developed over the past several decades (i.e., “modern finance”). This part of the course examines stock valuations, portfolio theory, bonds and interest rate determination, futures, and options. The second part of the course picks up where modern finance leaves off: modern money, as defined in L. Randall Wray’s influential book *Understanding Modern Money* (1998). This second section encompasses discussion of the details of monetary policy implementation, financial instability, and the nature and economic role of government debt and deficits, all of which are either generally overlooked or severely (and often incorrectly) oversimplified by the media, academics, and (in particular) practitioners of modern finance. In short, modern finance is incomplete without a proper consideration of modern money, and vice versa, though both are often considered in isolation. This course attempts to bring the two together.

*A note on prerequisites:* You are expected to have a basic understanding of EC100/101. If you do not recall some of this material when it arises, then it is your responsibility to bring yourself up to date, not mine. There is a natural progression to the material covered throughout the business curriculum, and it simply must be expected that you have taken basic knowledge with you from these courses (just as in progressions through a foreign language or a math curriculum, for instance). Finally, please be advised that **there is a significant increase in difficulty in this course compared to EC100/101.**

## COURSE OBJECTIVES:

- Demonstrate understanding of and ability to apply modern theories of asset price/return determination and financial portfolios.
- Develop a basic understanding of futures and options markets and their relationship to price determination in equity and debt markets. Be able to synthesize and apply this understanding in taking financial positions.
- Demonstrate understanding of the interrelated roles of the Federal Reserve, the Treasury, and money markets in the financial system’s day-to-day functioning and in its ability to avoid significant disruption or instability.
- Be able to articulate and apply Minsky’s approach to financial instability to current events.
- Continue to improve verbal and written skills for presentation and communication.

## COURSE MATERIALS:

- McGraw-Hill PRIMIS packet available at the bookstore. This is the primary text for the course.
- In addition, there will be several articles handed out or made available via the internet. See course outline below.

## COURSE GRADES:

The following scale will be used in assigning grades:

93% and above	A	80% to 82.9999%	B-	67% to 69.9999%	D+
90% to 92.9999%	A-	77% to 79.9999%	C+	63% to 66.9999%	D
87% to 89.9999%	B+	73% to 76.9999%	C	60% to 62.9999%	D-
83% to 86.9999%	B	70% to 72.9999%	C--	Below 60%	F

Your course grade will be determined by your performance on the coursework described below and also the attendance policy (attendance policy is described below). These will be assigned the following weights:

<i>Item</i>	<i>Weight</i>
Participation	6%
Stock Trak Activity Log	18%
Short Term Papers	56%
Comprehensive Final Exam	<u>20%</u>
	100%

All decimals on final grades in each category listed above will be rounded up (e.g., a score of 79.3% will be rounded up to 80%). However, your cumulative grade for the course will not be rounded up or down (e.g., a course average of 79.999% will receive a final grade of C+).

#### *Participation:*

This will be determined by your contributions in class, which will be evaluated based upon two criteria: (1) preparedness for class (reading required materials for the day, being prepared to discuss relevant questions, etc.), and (2) verbal contributions during class time, both with the larger class and in smaller groups. Special note will be taken of those students willing to provide their own analysis or answer questions when the rest of the class appears less able or willing to do so. Please note, however, that verbal contributions to class meetings are NOT necessarily measured by *quantity* of contributions; instead, the *quality* of contributions—in terms of asking relevant questions, providing reasoned analysis, and otherwise enhancing class discussions—is far more important. In other words, it is theoretically possible for the people talking the most in class to not receive the highest participation grades in the class.

#### *Stock Trak Log:*

There will be several assignments utilizing the Stock-Trak website ([www.stocktrak.com](http://www.stocktrak.com)) for which you will manage a fictional portfolio, including planning and making various trades. In the log, you will detail the rationale behind your trades and briefly discuss how each turned out. There will be a few instances in which you will be required to manipulate data in Excel in order to assess potential investments. The entire log will be **due by 5pm on Wednesday, April 8**.

#### *Short Term Papers:*

There will be six short term papers assigned during the semester that will focus respectively on portfolio theory, options, bonds and interest rate futures, central bank operations, financial instability, and government debt in the financial system. These will generally have a required minimum length somewhere in the range of 1000 to 2000 words (4 to 8 pages, double-spaced).

#### *Comprehensive Final Exam:*

The final exam will be in-class and comprehensive. You will receive a study guide to narrow down required material for studying purposes in the last week of the semester.

#### *Attendance Policy:*

For every class beyond 4 that you miss, your final percentage will be reduced 0.5%; if you miss 0, 1, 2, or 3 total classes, 1%, 0.75%, 0.5% or 0.25% will be added to your final percentage, respectively. Excused absences are given at my discretion; in general, an excused absence will only enable you to hand assignments in late without penalty but will still count toward your four allowable absences.

#### **NOTES ON MY POLICY/VIEWS ON ASSIGNED WORK:**

1. Regarding **late work**, it is not possible to grade consistently, or be fair to people who take trouble to do assignments on time, if I am absorbing a continual stream of late work. Therefore, late assignments will be **penalized three percent (3%) of the total possible points for every day that**

**they are late.** Please note **that assignments handed in even one minute after I have collected them or a due date and time has otherwise passed are considered to be one day late. Assignments handed in the next day** (beginning at 12:01am the following day) **are considered two days late, and so forth** (again, each respective day for assessing an additional penalty will begin at 12:01am). Further, once I have either provided the class with answers or have returned an assignment to the class or even to one member of the class, late work will no longer be accepted.

2. Anything and everything you **hand in** will be assessed not only for content but also writing skills such as spelling, correct language usage, and punctuation. See the file on <http://my.wartburg.edu> titled **"Grading Criteria for Assignments"** for the criteria I will use on all graded work.
3. My classes are intended to be challenging. This means that, if all goes as planned, **there will be several instances in which you find the course material or assignments difficult, and some periods in which you find it very difficult.** I will provide you with many opportunities **in class, every day,** to slow down the pace of the course (within limits) and to ask questions, receive clarification, and so forth. While I accept much responsibility for organizing material and assignments as coherently as possible, education and learning are two-way streets, and thus I place substantial responsibility on you to take advantage of these opportunities. If you do not understand but you do not tell me, then I will continue to proceed through course material and assignments—in short, I am not a mind reader and I therefore can only go on the feedback you verbally provide. Note also, since this is a finance/economics course, I view it to be a very bad financial decision to pay tuition only to sit in the classroom and be confused.

#### **IMPORTANT HOUSEKEEPING ITEMS:**

1. *Academic Integrity/Honesty:* Academic integrity is one of the basic principles of a college community. **By attending Wartburg College, students are demonstrating their dedication to the Honor Code. The Honor Code reminds students of their responsibility to promote academic honesty by opposing cheating and plagiarism and reporting dishonest work.**

ALL assignments are done by you (and nobody else) with no help or collaboration whatsoever unless EXPLICITLY allowed in writing by me. This means that you cannot defend yourself after the fact by claiming that I did not explicitly prohibit such activity on any assignment.

Any form of academic dishonesty will result in one or more of the following sanctions: a) loss of points for that specific assignment or exam; b) reduction in the final course grade; c) issuance of a grade of "F" for the entire course.

2. *Commitment to Students with Disabilities:* The Americans with Disabilities Act of 1990 (ADA) provides protection from illegal discrimination for qualified individuals with disabilities. Students requesting instructional accommodations due to disabilities must arrange for such accommodations by contacting Pathways Associate for Testing and Advising Carla Coates. She can be reached at the Pathways Center, 314 Vogel Library, Wartburg College, Waverly, IA 50677, 352-8230, [carla.coates@wartburg.edu](mailto:carla.coates@wartburg.edu). Presenting documentation of a student's disability early (before the beginning of classes) is helpful and often necessary to secure needed materials in a timely way. Accommodations should be requested PRIOR to affected assignment due dates. For more detailed information, please see <http://www.wartburg.edu/pathways/testing/AccommodationProcessStudents.pdf>
3. *Harassment:* Everyone in the class will conduct themselves in a mature and professional manner. I will not, nor will Wartburg College, tolerate any form of harassment in the classroom (including, but not limited to, harassment related to gender, race, or lifestyle). If you have a complaint, please bring it to my attention or to the attention of the Dean of Students.
4. *Incompletes:* Incompletes will be given only in rare cases of extreme personal or familial difficulties that prevent a student from completing the semester's work, and in those cases only if the student has a passing grade (C- or better) *and* has completed a substantial percentage of the course.

5. Extra Credit: You should expect that there will be no opportunities for extra credit during the semester. In particular, there will be absolutely NO opportunities for extra credit on an individual basis, as this would be unfair to others in the class. Rather than hoping for extra credit opportunities, take responsibility for your performance in the course throughout the semester by following the advice provided above.

### **COURSE OUTLINE:**

The following lists—tentatively—the topics we will cover and the order in which we will cover them. “Text” refers to the McGraw-Hill PRIMIS compilation of chapters.

#### **Class 1: Financial System Participants and the Positions They Take (1/5)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 1, “Investments, Background and Issues,” pp. 1-19 of text.
  - Prepare to discuss problems 1a, 2-5, 6a/b, 9-11.
- Read through the syllabus completely before next class period.
- Register for Stock Trak before next class period.

#### **Class 2: A Taxonomy of Financial Assets and Instruments (1/7)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 2, “Asset Classes and Financial Instruments,” pp. 23-50 of text.
  - Prepare to discuss problems 3-10, 13-21.

#### **Class 3: How Securities Are Traded (1/9)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 3, “Securities Markets,” pp. 54-82 of text.
  - Prepare to discuss problems 2-4, 7-10, 12-14, 16-20

#### **Class 4: Modern Finance—Understanding Risk and Return (1/12)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 5, “Risk and Return: Past and Prologue,” pp. 88-103 ONLY of text.
  - Prepare to discuss problems 1, 2, 4, 5, 9, 10, 13, 14, 16, 17, 18
- Additional handouts on the history of risk and return

#### **Class 5: Modern Finance—Risky Portfolios Combined with Risk-Free Assets (1/14)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 5, “Risk and Return: Past and Prologue,” pp. 105-113 ONLY of text.
  - Prepare to discuss problems 19-22, 24-26.

#### **Class 6: Modern Finance—The Benefits of Diversification (1/16)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 6, “Efficient Diversification,” pp. 121-143 ONLY of text.
  - Prepare to discuss problems 1, 2, 5-12, 16, 17.

#### **Class 7: Modern Finance—Single Factor Models (1/19)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 6, “Efficient Diversification,” pp. 143-152 ONLY of text.
  - Prepare to discuss problems 19, 22-24, 26.

#### **Class 8: Modern Finance—Capital Asset Pricing Model (1/21)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 7, “Capital Asset Pricing and Arbitrage Pricing Theory,” pp. 164-182 ONLY of text.
  - Prepare to discuss problems 2, 3, 6, 8-14, 16, 18-25, 32-40.

**Class 9: Modern Finance—Arbitrage Pricing Theory: Multifactor and Proxy Models (1/23)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 7, “Capital Asset Pricing and Arbitrage Pricing Theory,” pp. 183-193 ONLY of text.
  - Prepare to discuss problems 26-31, 41.

**Class 10: Modern Finance—CAPM and APT (1/26)**

- Overflow day for discussion of portfolio theory, assignments, and so forth, from preceding class periods.

**Class 11: Modern Finance—Efficient Market Hypothesis (1/28)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 8, “The Efficient Market Hypothesis,” pp. 203-228 of text.
  - Prepare to discuss problems 1-28.
- Robert Shiller. 2005. *Irrational Exuberance*. 2<sup>nd</sup> Edition. Princeton, NJ: Princeton University Press.
  - “The Stock Market in Historical Perspective,” pp. 1-10.
  - “Efficient Markets, Random Walks, and Bubbles,” pp. 177-194.

**Class 12: Modern Finance—Basics of Equity Valuation (1/30)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 13, “Equity Valuation,” pp. 234-265 of text.
  - Prepare to discuss problems 1-12, 15, 16, 18, 20-23, 25

**Class 13: Modern Finance—Introduction to Stock Options (2/2)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 15, “Options Markets,” pp. 275-289 ONLY of text.
  - Prepare to discuss problems 1-5, 13, 16, 17, 20, 25.

**Class 14: Modern Finance—Option Trading Strategies (2/4)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 15, “Options Markets,” pp. 289-294 ONLY of text. Pages 294-304 may be covered, time permitting.
  - Prepare to discuss problems 6-11, 15, 19, 21, 24, 26, (time permitting . . . 22, 23).

**Class 15: Modern Finance—Introduction to Option Valuation and Black-Scholes (2/6)**

- Bodie, Kane, and Marcus, *Investments*, Ch. 21, “Option Valuation,” pp. 313-320 and 327-333 ONLY of text.
  - Prepare to discuss problems 1, 2, 6, 11-13, 17, 18, 22

**Class 16: Modern Finance—Black-Scholes, Option Greeks, and Options Strategies (2/9)**

- Bodie, Kane, and Marcus, *Investments*, Ch. 21, “Option Valuation,” pp. 333-346 ONLY of text.
  - Prepare to discuss problems 3-5, 8, 14, 15, 16, 19-21, 23-26, 28, 34, 37-42.
- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 6, “Efficient Diversification,” pp. 150-152 ONLY of text.

**Class 17: Modern Finance—Bond Valuation (2/11)**

- Cecchetti, *Money, Banking, and Financial Markets*, Ch. 6, “Bonds, Bond Prices, and the Determination of Interest Rates,” pp. 358-368 and 380-381 ONLY of text.
  - Prepare to discuss problems 1-4, 6a, 8-12
- The following are useful for understanding bond quotes:
  - Federal Reserve Bank of New York. “Estimating Yields on Treasury Securities.” *Fed Point* 28. <http://www.newyorkfed.org/aboutthefed/fedpoint/fed28.html>

- Federal Reserve Bank of New York. “Understanding Government Securities Quotes.” *Fed Point* 7.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed07.html>
- Federal Reserve Bank of New York. “Zero Coupons and Strips.” *Fed Point* 42.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed42.html>

**Class 18: Modern Finance—Bond Market Analysis (2/13)**

- Cecchetti, *Money, Banking, and Financial Markets*, Ch. 6, “Bonds, Bond Prices, and the Determination of Interest Rates,” pp. 368-381 ONLY of text.
  - Prepare to discuss problems 14-18.
- Cecchetti, *Money, Banking, and Financial Markets*, Ch. 7, “The Risk and Term Structure of Interest Rates,” pp. 385-393 ONLY of text.
  - Prepare to discuss problems 1, 2, 4, 9-12, 14, 16.

**Class 19: Modern Finance—Term Structure of Interest Rates (2/16)**

- Cecchetti, *Money, Banking, and Financial Markets*, Ch. 7, “The Risk and Term Structure of Interest Rates,” pp. 394-406 ONLY of text.
  - Prepare to discuss problems 5-7, 17, 18.

**Class 20: Modern Finance—Term Structure of Interest Rates (cont’d) (2/18)**

- Handouts on the term structure and forward rates.

**Class 21: Modern Finance—Introduction to Futures (2/20)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 17, “Futures Markets and Risk Management,” pp. 410-424 ONLY of text.
  - Prepare to discuss problems 1-4, 6, 7, 11, 17, 25.

**Class 22: Modern Finance—Pricing of Futures Contracts (2/23)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 17, “Futures Markets and Risk Management,” pp. 424-432 ONLY of text.
  - Prepare to discuss problems 8-10, 12-15, 18, 20-24.
- Michael W. Masters. 2008. Testimony before the Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, U. S. House of Representatives (June 23).
- William T. Gavin. 2008. “Index Funds: Hedgers or Speculators?” Federal Reserve Bank of St. Louis *Economic Synopses*, no. 18.  
<http://research.stlouisfed.org/publications/es/08/ES0817.pdf>
- Michael W. Masters and Adam K. White. 2008. “The Accidental Hunt Brothers—Act 2.” September 10.

**Class 23: Modern Finance—Interest Rate Futures and Swaps (2/25)**

- Bodie, Kane, and Marcus, *Essentials of Investments*, Ch. 17, “Futures Markets and Risk Management,” pp. 432-437 ONLY of text.
  - Prepare to discuss problems 16, 19, 28-30.
- Handout on interest rate futures.

**Class 24: Modern Finance—Interest Rate Futures and the Fed (2/27)**

- Paul Kasriel and Keith Schap. 2003. “Fed Funds Futures Spreads Can Shed Light on Future Fed Actions.” In *Seven Indicators that Move Markets: Forecasting Future Market Movements for Profitable Investments*, pp. 29-42.
- Cleveland Fed on fed funds futures and options on fed funds futures:  
<http://www.clevelandfed.org/research/policy/fedfunds/faq.cfm#Q3>

- Cleveland Fed on options on fed funds futures:  
<http://www.clevelandfed.org/research/Commentary/2003/0901.pdf>
- Cleveland Fed on implied probabilities from options on fed funds futures:  
<http://www.clevelandfed.org/research/policy/fedfunds/Index.cfm>

### **Class 25: Modern Money—Introduction to the Money Markets (3/9)**

- Saunders and Cornett, Ch. 5, “Money Markets,” pp. 446-476 of text.
  - Be prepared to discuss questions 1-10, 12, 14-23, 25, 26.

### **Class 26: Modern Money—Banks and the Money Markets (3/11)**

- Fedpoint 45. Reserve Requirements.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed45.html>
- Fedpoint 43: Fedwire. <http://www.newyorkfed.org/aboutthefed/fedpoint/fed43.html>
- Fedpoint 5: Book-Entry Procedure.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed05.html>
- Fedpoint 36: CHIPS. <http://www.newyorkfed.org/aboutthefed/fedpoint/fed36.html>

### **Class 27: Modern Money—How the Fed Sets and Sustains Its Interest Rate Target (3/13)**

- Fedpoint 27: System Open Market Account.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed27.html>
- Fedpoint 32: Open Market Operations.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed32.html>
- Fedpoint 4: Repurchase and Reverse Repurchase Transactions.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed04.html>
- Fedpoint 18: Discount Window.  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed18.html>
- Milton Marquis. 2002. “Setting the Interest Rate.” Federal Reserve Bank of San Francisco *Economic Letter* (October 11).  
<http://www.frbsf.org/publications/economics/letter/2002/el2002-30.pdf>
- Federal Reserve Bank of New York. 2007. “Domestic Open Market Operations During 2006.” <http://www.newyorkfed.org/markets/omo/omo2006.pdf>
- Further Reading:
  - Scott T. Fullwiler. Forthcoming. “Modern Central Bank Operations: The General Principles.” Basil Moore and Louis-Philippe Rochon (eds.), *Post-Keynesian Monetary Theory and Policy: Horizontalism and Structuralism Revisited*, Cheltenham: Edward Elgar Publishing.
  - Scott T. Fullwiler. 2003. “Timeliness and the Fed’s Daily Tactics.” *Journal of Economic Issues* (December): 851-880. Available via EbscoHost.
  - Marc Lavoie. 2005. “Monetary Base Endogeneity and the New Procedures of the Asset-Based Canadian and American Monetary Systems.” *Journal of Post Keynesian Economics* 27 (Summer): 689-710. Available via EbscoHost.

### **Class 28: Modern Money—Hyman Minsky and the Financial Instability Hypothesis (3/16)**

- Martin H. Wolfson. 1994. “Contemporary Theorists: Hyman P. Minsky.” In, *Financial Crises: Understanding the U. S. Postwar Experience*, 2<sup>nd</sup> edition. Armonk, NY: M. E. Sharpe, pp. 16-20.
- Jan A. Kregel. 1997. “Margins of Safety and Weight of Argument in Generating Financial Fragility.” *Journal of Economic Issues*, vol. 31 (no. 2): 543-548. Available via EbscoHost.
- Perry Mehrling. 2000. “Minsky and Modern Finance.” *Journal of Portfolio Management* 26 (Winter): 81-88. (Read pp. 81-84 only here.) Available via EbscoHost.

- Tobias Adrian and Hyun Song Shin. 2008. "Liquidity, Monetary Policy, and Financial Cycles." Federal Reserve Bank of New York *Current Issues in Economics and Finance*, vol. 14, no. 1 (January/February).  
[http://www.newyorkfed.org/research/current\\_issues/ci14-1.pdf](http://www.newyorkfed.org/research/current_issues/ci14-1.pdf)

### **Class 29: Modern Money—Application of Minskyan Analysis to LTCM (3/18)**

- Case Study: Long-Term Capital Management, L. P. (A), pp. 497-520 of text.
- Perry Mehrling. 2000. "Minsky and Modern Finance." *Journal of Portfolio Management* 26 (Winter): 81-88. (Read pages 85-88 only here.) Available via EbscoHost.

### **Class 30: Modern Money—Application of Minskyan Analysis to the Mortgage Crisis (3/20)**

- Case Study: Subprime Meltdown—American Housing and Global Financial Turmoil, pp. 521-541 of text.
- Jan A. Kregel. 2008. "Using Minsky's Cushions of Safety to Analyse the Crisis in the U. S. Subprime Mortgage Market." The IDEAs Working Paper Series, Paper No. 04/2008.
- Paul McCulley. 2007. "The Liquidity Conundrum." Presentation at the New Frontiers in Asset Management Conference, Sacramento, CA (October 17).

### **Class 31: Modern Money—The Fed's Response to the Mortgage Crisis (3/23)**

- Federal Reserve Bank of New York. 2009. "Domestic Open Market Operations in 2008." This report will be posted to [www.newyorkfed.org](http://www.newyorkfed.org) sometime in January or February.
  - Be prepared to discuss increases in the Fed's balance sheet, paying interest on reserve balances, changes in the primary lending rate, purchases of asset-backed securities, and changes in the target rate.
  - The 2007 report has info on the early months of the crisis and is available at <http://www.newyorkfed.org/markets/omo/omo2007.pdf>
- Federal Reserve Bank of New York posts information about new facilities related to its efforts to improve market liquidity at <http://www.newyorkfed.org/markets/index.html>.
  - Look at the FAQs for each and be prepared to discuss each of these new facilities or operations.
- For the Bear-Stearns "bailout" (which it wasn't), see <http://www.moslereconomics.com/2008/07/25/reinhart-got-it-right/> and be prepared to discuss.
- Go to FDIC's website to see various programs for deposit and bank debt guarantees.
- Ben Bernanke. 2002. "Deflation: Making Sure 'IT' Doesn't Happen Here." Speech delivered November 21.  
<http://www.federalreserve.gov/BOARDDOCS/SPEECHES/2002/20021121/default.htm>

### **Class 32: Modern Money—Money-Manager Capitalism and the Next Minsky Moment (3/25)**

- Charles Whalen. 1997. "Money-Manager Capitalism and the End of Shared Prosperity." *Journal of Economic Issues*, vol. 31, no. 2 (June): 517-525. Available via EbscoHost.
- L. Randall Wray. 2008. "The Commodities Bubble: Money-Manager Capitalism and the Financialization of Commodities." Jerome Levy Economics Institute Public Policy Brief No. 96 (October). [www.levy.org](http://www.levy.org)

### **Class 33: Modern Money—Interdependent Operations of the Treasury and Fed (3/27)**

- Power Point on Government Deficits and Debt, Part I
- Fedpoint 21: Treasury Tax and Loan Program.  
<http://www.newyorkfed.org/aboutthefed/fedpoints.html>
- Stephanie Bell. 2000. "Can Taxes and Bonds Finance Government Spending?" *Journal of Economic Issues* 34 (September): 603-620. Available via EbscoHost.

### **Class 34: Modern Money—Government Debt and the Sector Financial Balances (3/30)**

- Power Point on Deficits, Part II
- L. Randall Wray. 2006. "Teaching the Fallacy of Composition: The Federal Budget Deficit." Center for Full Employment and Price Stability Policy Note No. 06/01 (March 27). <http://www.cfeps.org/pubs/pn-pdf/PolicyNote2006-1.pdf>
- L. Randall Wray. 2000. "A Primer on Government Surpluses." Center for Full Employment and Price Stability Special Report 00/02 (May 5).  
<http://www.cfeps.org/pubs/sr-pdf/SpecialReport2000-2.pdf>
- Warren Mosler. 2000. "Why John Q. Public Can't Sock It Away." Letter to *The Wall Street Journal* (August 9). [http://www.epicoalition.org/docs/johnq\\_wsj.htm](http://www.epicoalition.org/docs/johnq_wsj.htm)
- Warren Mosler/Tom Nugent vs. Brad DeLong. 2004. Exchange on Trade Deficits.

### **Class 35: Modern Money—Government Debt and Interest, Part 1 (4/1)**

- Mathew Forstater and Warren Mosler. 2005. "The Natural Rate of Interest Is Zero." *Journal of Economic Issues* 39 (June): 535-542. Available via EbscoHost.
- Warren Mosler. 2004. PowerPoint for "Zero Is The Natural Rate of Interest with a Floating Exchange Rate" (Australia, December) available at  
<http://www.epicoalition.org/docs/0istheNaturalRate.pdf>
- Further Reading:
  - Scott T. Fullwiler. 2005. "Paying Interest on Reserve Balances: It's More Significant than You Think." *Journal of Economic Issues*, vol. 39, no. 2 (June): 543-550. Available via EbscoHost.
  - Scott T. Fullwiler. 2006. "Setting Interest Rates in the Modern Money Era." *Journal of Post Keynesian Economics*, vol. 28, no. 3 (Spring): 495-525. Available via EbscoHost.
  - L. Randall Wray. 1998. *Understanding Modern Money: The Key to Full Employment and Price Stability*. Northampton: Edward Elgar. (THE book on modern money--\$20 on Amazon, Vogel Library has a copy.)
  - Warren Mosler. 1995. "Soft Currency Economics."  
<http://www.epicoalition.org/docs/soft0004.htm> (The original paper that shows how currency sovereignty changes everything.)

### **Class 36: Modern Money—Government Debt and Interest, Part 2 (4/3)**

- Power Point on Deficits, Part III
- Congressional Budget Office. 2005. "Long-Term Effects of Chronically Large Federal Deficits." (October 13). [http://www.cbo.gov/ftpdocs/67xx/doc6744/10-13-Long-TermEffects\\_Brief.pdf](http://www.cbo.gov/ftpdocs/67xx/doc6744/10-13-Long-TermEffects_Brief.pdf)
- Scott T. Fullwiler. 2007. "Interest Rates and Fiscal Sustainability." *Journal of Economic Issues*, vol. 41, no. 4 (December): 1003-1042. Available via EbscoHost.
- Tao Wu. 2005. "The Long-Term Rate Conundrum: Not Unraveled Yet?" Federal Reserve Bank of San Francisco *FRBSF Economics Letter* (April 29).  
<http://www.frbsf.org/publications/economics/letter/2005/el2005-08.pdf>

### **Class 37: Modern Money—Minsky, Government Debt, and Financial Fragility (4/6)**

- Power Point on Deficits, Part IV
- L. Randall Wray. 2006. "Extending Minsky's Classification of Fragility to Government and the Open Economy." Jerome Levy Economics Institute Working Paper No. 450 (May). [http://www.levy.org/pubs/wp\\_450.pdf](http://www.levy.org/pubs/wp_450.pdf)
- Eric Tymoigne. 2007. "A Hard-Nosed Look at Worsening U. S. Household Finance." *Challenge* (July-August): 88-110. Available via EbscoHost.
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### **Class 38: Modern Money—What Could Have Been Done? What Should Be Done Now? (4/8)**

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- Paul McCulley. 2008. Speech at the 17<sup>th</sup> Annual Hyman P. Minsky Conference on the State of the U. S. and World Economies, Jerome Levy Economics Institute, April 17, pp. 9-15 of conference program.
- Warren Mosler. 2008. "The Mosler Plan." September 20. <http://www.moslereconomics.com/2008/09/20/the-mosler-plan/>
- Jan Kregel. 2008. "A Simple Proposal to Resolve the Disruption of Counterparty Risk in Short-Term Credit Markets." Jerome Levy Economics Institute Policy Note 2008/4 (October). [http://www.levy.org/pubs/pn\\_08\\_4.pdf](http://www.levy.org/pubs/pn_08_4.pdf)
- Dimitri Papadimitriou and L. Randall Wray. 2008. "Time to Bail Out: Alternatives to the Bush-Paulson Plan." Jerome Levy Economics Institute Policy Note 2008/6 (November). [http://www.levy.org/pubs/pn\\_08\\_06.pdf](http://www.levy.org/pubs/pn_08_06.pdf)
- Michael Lewis and David Einhorn. 2009. "The End of the Financial World As We Know It" and "How to Repair a Broken Financial World." *The New York Times* (January 4).
- Other appropriate and relevant articles published during the course of the semester may be added here.
- **STOCK TRAK LOG DUE BY 5PM**

**COMPREHENSIVE FINAL EXAM: WEDNESDAY, APRIL 15, 11:30 to 1:30**