

31 221 - Money and Finance

1.5 credits

Semester Two

Lecturer

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Class Aims

This class extends the macroeconomic ideas presented in the Macroeconomics class. There are three main aims. The first is to provide a more detailed treatment of consumption, investment and the monetary sector, in macroeconomic models. The second is to provide an account of macroeconomic policy in the UK, focusing on stabilisation, inflation and unemployment policy. The third is to provide an account of the principals and structure of the UK system of financial intermediation.

Course Organisation

The class is divided into two lecture groups, for each of which there will be two lectures a week. Students should assign themselves to a particular lecture group at the start of the semester. In addition there will be fortnightly tutorials to deal with any difficulties you have with the analytical concepts, or discuss more informally the course material. Students should allocate themselves to one of the tutorial groups listed on the noticeboard opposite the lift on the 4th floor of the Curran Building. Administrative matters, should be raised with myself, R. Cross. I can be contacted after lectures, or during my Tuesday 4–5 pm or Thursday 4–5 pm office hours in room CURRAN 4.28.

Lecture Timetable

GROUP	MEETING HOURS	LOCATION	LECTURER
A	TUESDAY, 10.00–11.00	R234	R. CROSS
(TBS)	THURSDAY, 10.00–11.00	McC2	
B	TUESDAY, 2.00–3.00	C123	R. CROSS
(MATHS)	THURSDAY, 2.00–3.00	C123	

Please note that the TBS and MATHS labels for Groups A and B merely indicate timetable arrangements. The groups in question are not exclusively for TBS and Maths students, and there are no implications for the way the course material is presented.

Course Assessment

The assessment for the course as a whole is based on TWO COMPONENTS:

1. A CLASS TEST. This will take place on TUESDAY 21 MARCH IN WEEK 9. One essay question is to be answered from the list of three questions which is attached to this handout. The particular question to be answered will be chosen at random at the start of the test. This class test will account for 25% of the final class assessment. To allow you to revise for this test, there will be NO LECTURES in WEEK 8.

2. AN EXAMINATION. This will take place during the May/June diet of examinations. The examination will last for two hours, and will involve answering 3 from a list of 6 questions which will not be announced in advance. The examination will account for 75% of the final class assessment. The examination questions will, explicitly or implicitly, have two parts. The first is designed to examine the ability to present standard arguments or theoretical constructs in a coherent manner. The second part examines the ability to develop, assess and/or apply the material covered in the first part of the question.

Using X% to stand for the mark given, the marking scheme for the course is:

X% < 40%	FAIL
X% = 40%	PASS
40% < X% < 50%	III
50% < X% < 60%	II.2
60% < X% < 70%	II.1
70% < X%	I

Any student who passes the examination but who fails overall will be credited with a pass mark of 40%.

The August (resit) examination will have the same format as the May/June examination. The mark for the August (resit) examination will be determined solely by the result obtained in that examination.

Course Texts

Mankiw N G, (M), MACROECONOMICS, 3rd edition, Worth Publishers 1997.

Gordon R J, (G), MACROECONOMICS, 6th edition, Harper-Collins 1993.

Froyen, R T, MACROECONOMICS, 4th edition, Macmillan 1993.

Chrystal K A & Price S, (CP), CONTROVERSIES IN MACROECONOMICS, 3rd edition, Harvester 1994.

Bain A D, (Bain), THE ECONOMICS OF THE FINANCIAL SYSTEM, 2nd edition, Blackwell 1992.

THERE IS NOT A SINGLE TEXTBOOK COVERING THE ARRAY OF TOPICS IN THIS COURSE. ACCORDINGLY YOU ARE ADVISED TO USE THE FRAMEWORKS PROVIDED IN THE LECTURES AS YOUR MAIN VEHICLE OF STUDY. THE TEXTS CITED HERE ARE DESIGNED AS SUPPLEMENTARY READING AND DO NOT DEFINE THE COURSE SYLLABUS

Lecture Topics

<u>1. CONSUMPTION</u>	M-Ch.15
	G-Ch.17
	F-Ch.14
<u>2. INVESTMENT</u>	M-Ch.17

3. MONEY DEMAND AND SUPPLY

G–Ch.18

F–Ch.14.2

M–Ch.18

G–Ch.15

F–Chs.15, 16 and 19

4. STABILISATION POLICY

M–Chs.13 and 16

G–Chs. 4, 5 and 16

F–Chs. 10 and 18

CP–Chs.6, 10 and 11

5. INFLATION POLICY

M–Chs.12 and 16

G–Chs.9 and 10

F–Chs.9 and 10

CP–Chs.7

6. UNEMPLOYMENT POLICY

M–Ch.5

7 OR 8

MONEY DEMAND AND SUPPLY

9 OR 10

STABILISATION POLICY

11 OR 12

INFLATION AND UNEMPLOYMENT

TO BE ARRANGED BEFORE MAY/JUNE DEGREE EXAMINATION

UK FINANCIAL SYSTEM AND GENERAL REVISION

31 221 Money and Finance
Class Test - Tuesday 21 March

ONE of the following questions will be chosen at random at the start of the test. During the normal lecture hour you will be expected to answer this question. The test will be sat in the usual lecture theatre. This test counts for 25% of the total assessment.

1. "A rise in expected future income will lead to a rise in present consumption." Is this necessarily the case? How would a rise in the rate of interest affect present consumption?
2. Explain how interest rates affect investment decisions under the "single trigger" approach. Is it more plausible to suppose that investment decisions involve two separate "triggers", one for going ahead with an investment project, and one for abandonment?

3. Outline the Baumol–Tobin inventory model of the demand for money. How would you amend this model to take account of uncertainty regarding income receipts and expenditures?