

# ECON0038 – The economics of money and banking

---

## Lecturer

Dr Silvia Dal Bianco

## Why study the Economics of Money and Banking?

I would say that the main reasons are three but I am sure you will find out many more. First, money and retail banks are cornerstones of market economies. They allow efficient transactions –such as purchases or investments- to take place in economy, even when people do not have enough money today, the so-called ‘cash in hand’. Second, the concepts of money and banking are continuously evolving (I find it quite intriguing!). Think for example to different types of money, from cash to bitcoin; to different payment systems, such as handing cash or sending money with your phone; and, finally, to different financing options for businesses, from own savings to exotic derivatives. Another key aspect is that economic stability largely depends on the smooth functioning of the money market. In particular, its malfunctioning or mismanagement can lead to traumatic, and sometimes global, crises. Hence, the banking industry needs to be regulated by governments. The intervention of the State in the economy calls for the careful evaluation of significant trade-offs and it generates interesting debates and opinions that are often difficult to reconcile.

## What will you learn about?

In this course, we explore the characteristics of money and credit as well as their role for economic growth. We investigate why do banks exist and how they compete. We analyse the causes and consequences of banking crises. We assess different crisis-prevention tools that have been used and adapted over time, taking account of current debates and lessons learned from the recent financial crisis. Throughout the course, we use economic frameworks (including algebra and diagrams), empirical evidence (data and empirical results from the established literature as well as case studies) and policy developments (reports from authoritative institutions and governments’ reports) to analyse the issues. We build on the microeconomics of firm decision-making and markets from second year. We also use macroeconomic frameworks for assessing the growth impact of financial development as well as for monetary policy.

We aim to answer the following questions over the 10-weeks. Each question builds on what came before so it is important to keep on top of the material week-to-week.

1. Why do we have money, credit and banks in the economy?

2. What are the benefits and downsides of having credit and banks in the economy?
3. Bitcoin and Blockchains: is bitcoin money? Is Bitcoin blockchain a payment system? What are Central Bank Digital Currencies (CBDCs)? What are their functions?
4. How do banks compete? Is competition in the retail banking sector effective?
5. What are the causes and consequences of banking crises?
6. What tools do we use to regulate individual bank behaviour and systemic risk? How effective are they?
7. What should governments and regulators do to prevent another financial crisis? What if there is another crisis?

## Is this course right for you?

Prior to taking this course, students are required to have completed ECON0013: Microeconomics (previously ECON2001) and ECON0016: Macroeconomic Theory and Policy (previously ECON2004). The course is open to Affiliate Students but they must be comfortable working with microeconomic and macroeconomic models similar to those covered by UCL students in second year. If you are not sure whether the course is suitable for you please get in touch with the course lecturer. The course is most suited to students who enjoy applying economic models to real world situations. You should enjoy macroeconomics and microeconomics. You need to be willing to read and review literature as well as do some independent research. You also will present your findings both orally and in writing, demonstrating critical thinking abilities as well as using economic models, empirical evidence and policy developments. You must commit to preparing for and contributing to all tutorial sessions.

### **This course may not be for you if:**

- you are not comfortable learning by discussing ideas with your peers, rather than being taught from the front by the lecturer all the time; and/or
- you are unwilling to take ownership for your own learning during term by exploring readings with limited guidance and working independently to review your understanding of material relevant to the course; and/or
- you are not willing to invest the time and effort needed during the term to keep on top of lecture materials, tutorial activity preparation, homework and wider independent reading.

## What will you know (better) by the end of the course?

The aim of this course is to provide students with the analytical skills needed to assess decision-making, outcomes and policy tools in the retail banking sector. By the end of the course, you will be able to use your economic knowledge to independently critique problems and policy solutions in the banking sector, understanding the implications for the wider economy.

The desired learning outcomes are that on completion of the course you are able to:

1. Explain, using economic tools and empirical evidence, why retail banking is central to the economy and what factors affect decision-making of retail banks.
2. Critically analyse the role of government in the banking sector and evaluate different options for banking regulation.
3. Independently investigate and critically comment on a range of current debates relating to the banking sector.
4. Use economic analysis to tackle complex economic problems in group and develop team-working abilities in order to be able to confidently present the group-coursework to the class.
5. Write clear and well-structured economic essays for a non-expert audience and critically assess the writing of others.
6. Confidently discuss and debate economic ideas with your peers.

**When marking homework, the assessed essay and exam answers we will be looking for evidence that students have reached outcomes 1 to 5 in particular.** You will meet Outcome 6 if you engage with discussions in lectures and tutorials.

## How do you learn on this course?

The course is taught using a mix of lectures, tutorials and guests' talks. Students are expected to work independently outside the classroom for an average of 8-10 hours per week. Reading Week is a perfect opportunity to catch-up with literature and to prepare homework for later weeks.

The module spans over 10 teaching weeks.

There is usually a revision lecture in the Exam term.

### *Tutorials*

There are typically five one-hour tutorials spread over five weeks. A *draft* programme of tutorial activities is in Table 1.

In tutorials, students get hands-on opportunities to develop reading, essay writing and presentation skills. Students work in small groups and present ideas to the wider class group. We do not directly answer homework questions in tutorials but discussions are organised to provide students with many opportunities to improve their presentation skills, essay writing abilities and their approach to answering short questions.

For the tutorials to work as intended active participation by students is required and students need to prepare in advance for the class discussion. Details of the pre-work required for each tutorial will be on course page. You do not submit the work prepared for marking. You should view the discussion in tutorials, and guide answers provided where relevant, as feedback on what you have prepared. You are encouraged to come to office hours during term if you have any questions on the material covered.

**Table 1: Planned tutorial activities**

<b>Week</b>	<b>Activity</b>
23	<i>How to get a good grade in an essay and how to make the most of feedback: you will work in teams to mark a sample economic essay related to a recent topic covered in the course. Each team will present their mark and the criteria used for assessing the essay. After each team has presented their total mark and criteria, you will have a general discussion about how essays are marked and what you need to do to do well in this course. There will be a particular focus on how to structure your story in an essay. You will also discuss referencing.</i>
26	<i>Reading and assessing economic papers: we assign students to teams in advance of the tutorial. We ask each team to read a specific reading, from the reading list, and to prepare notes on it. In tutorial, each team prepares a poster to summarise the main messages from the paper and to provide critical comment on the paper. They share these views with each other. There is also opportunity for general discussion about how best to approach economic readings in the course and more generally.</i>
28	<i>Group-work presentation and Q&amp;A: students will present their group-work to peers and tutors. There will be a Q&amp;A session after each presentation. This will enable students to defend their works and to provide clarifications.</i>
29	<i>Writing focused answers to short answer questions: ahead of the tutorial, students attempt two short answer questions. In tutorial, we give students a guide answer to the questions and they need to provide feedback to their neighbour on one of their answers. There is an opportunity for a general discussion of how to write focused and concise answers to these questions.</i>
30	<i>Book Club: During the term, students need to read one book, of their choice, relevant to the course. In this tutorial, students share their views on the book that they have read. They provide their peers with a summary of the main messages in the book and their assessment of the arguments made. The questions that students will discuss are: (a) What are the main messages/themes in the book that are relevant to the course? (b) Did you find the author explained his/her arguments well? (c) Did you find the evidence provided to support the arguments made convincing? why/why not? (d) Would you recommend the book to someone studying the course next year?</i>

Attendance in tutorials is, in line with Department policy, compulsory. Tutors will record your attendance. Please only attend the tutorial on your timetable.

### **Homework (not for mark)**

You will get the chance of deepen your preparation for your assessed work through two pieces of homework. No individual feedback will be provided. Despite homework is not formally discussed in tutorials, students are free to ask questions around what they have done in the next tutorial or in office hours.

Homework 1 consists in a *plan* for the assessed poster presentation. Homework 2 consists in a *plan* for the assessed essay.

Details of all homework assignments will be available on course page.

### **Independent study**

Students need to read lecture notes and readings weekly to ensure they keep on top of the course material. We provide a (lengthy) reading list, with guidance on how to approach it, on course page.

## Readings

This is not a textbook course. We make use of material from a range of sources, including textbooks, government and regulatory publications and academic papers. The readings complement lecture and tutorial discussions. It is not always possible to map material in lectures directly to readings. A key part of your as an independent learner is to make the connections yourself.

***There is no required or compulsory reading and you are not expected to read every word of every reading*** (but can if you wish too). The purpose of reading is to provide a deeper understanding of the topics and to expose you to different perspectives. It does not really matter which papers you choose to read, so long as you get a mix of perspectives. The exception to this is that if you are struggling with any models or frameworks from the lectures you may need to spend more time on the textbook-type readings to get a better understanding. Lecturer is also available in office hours if you have questions.

## Assessment

TBC