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**COURSE SYLLABUS**  
**FOR FULL-TIME UNDERGRADUATE PROGRAMS**

*(Issued under Decision No.1380/QĐ-ĐHKTQĐ on 15/8/2016 by the University President)*

**1. COURSE NAME:** Monetary and Financial Theories 2

Code: **NHLT1103**

Number of Credit: 3

**2. DEPARTMENT IN CHARGE OF INSTRUCTION:**

**Office:** Room 304, Building 7, National Economics University

**Office Hours:** 9am - 11am, from Monday to Friday

**Office Telephone:**

**3. PRE-REQUISITE:**

Before attending this course, students had to finish Monetary and Financial Theories 1 course.

**4. COURSE DESCRIPTION:**

The course is designed to provide in-depth knowledge in the field of money and finance. We will study the behavior and structure of interest rates, non-bank institutions, the fundamentals of financial institutions, the complete money supply process. In particular, the basic facts about financial structure throughout the world will be focussed and the course will explain the justification of financial institutions. The topics of international finance are discussed to explain the behavior of exchange rate and the operation of international financial system.

**5. COURSE OBJECTIVES:**

*After completing the course, students will be able to:*

- Applying the Theory of asset demand, Bond supply and demand analysis and the Liquidity Preference Framework to explain the determinants of interest rates and predict the changes in equilibrium interest rates
- Explaining the characters of interest rates using risk and term structure of interest rate; Differentiate among expectation hypothesis, segmented-market hypothesis, and preferred-habitat hypothesis;
- Describe the basic facts about financial structure throughout the world and give a justification for the existence of financial institutions.

- Describe how transaction costs and asymmetric information influence financial structure.
- Analyse the general principles of bank management: Liquidity management, asset management and interest-rate risk management
- Analyse the determinants of the money supply and the role of players in money supply process
- Analyse monetary policy goals, strategies and tactics
- Describe how exchange rate is determined and its behavior; describe the operational principle of the international financial system and the role of central banks in international finance;
- Analyse the causes of inflation and its effects to the economy.

## 6. COURSE CONTENTS:

### TENTATIVE SCHEDULE

<i>No</i>	<i>Contents</i>	<i>Total hours</i>	<i>In details</i>		<i>Notes</i>
			<i>Theory</i>	<i>Practice, Discussion, Exams</i>	
1	Chapter 1	8	5	3	
2	Chapter 2	7	4	3	
3	Chapter 3	6	4	2	
4	Chapter 4	5	3	2	
5	Chapter 5	6	4	2	
6	Chapter 6	5	4	1	
7	Chapter 7	8	6	2	
	<b>Total</b>	<b>45</b>	<b>30</b>	<b>15</b>	

## CHAPTER 1 – INTEREST RATES

Interest rate is the cost of borrowing or the price paid for the rental of funds. In this chapter, we examine how the overall level of nominal interest rates is determined and which factors influence their behavior. We also examine the relationship of the various interest rates. Finally, we examine the sources and causes of fluctuations in interest rates relative to the one another and look at a number of theories that explain the fluctuations.

### 1.1. Determinants of Asset Demand

#### 1.1.1. Wealth

#### 1.1.2. Expected Returns

- 1.1.3. Risks
- 1.1.4. Liquidity
- 1.2. The behavior of interest rates
  - 1.2.1. Supply and demand in the loanable fund market
  - 1.2.2. Supply and demand in the money market (The Liquidity Preference Framework)
- 1.3. The Risk and Term Structure of interest rates
  - 1.3.1. Risk structure of Interest rates
  - 1.3.2. Term structure of Interest rates

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 5, 6

## CHAPTER 2 - FINANCIAL INSTITUTIONS

Why are financial institutions important to the economy? What are the types of financial institutions? These questions will be answered in this chapter

- 2.1. Basic facts about financial structure throughout the world
  - 2.1.1. How transaction costs influence financial structure
  - 2.1.2. Asymmetric information: Adverse selection and moral hazard
- 2.2. Functions and roles of financial institutions
  - 2.2.1. Functions of financial institutions
  - 2.2.2. The roles of financial institutions
- 2.3. Types of financial institutions
  - 2.3.1. The depository institutions
    - 2.3.1.1. Commercial banks
    - 2.3.1.2. Savings and loan Associations
    - 2.3.1.3. Mutual Savings banks
    - 2.3.1.4. Credit Union
  - 2.3.2. Finance companies
  - 2.3.3. Security companies
  - 2.3.4. Insurance companies
  - 2.3.5. Financial intermediation and Government Regulation

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 8

## CHAPTER 3 - BANK MANAGEMENT

This chapter will help students examine how commercial banks manage their assets and liabilities. The roles of reserves in liquidity management is analyzed, the principles to manage credit risk. Capital Adequacy management and the interest-rate risk management are also discussed in this chapter.

- 3.1. General Principles of bank management

- 3.1.1. Liquidity management
- 3.1.2. Diversifying asset holdings
- 3.1.3. Acquiring funds at low cost
- 3.2. Reserves management
  - 3.2.1. The roles of reserves
  - 3.2.2. The reserves management framework
- 3.3. Managing credit risk
  - 3.3.1. Screening and Monitoring
  - 3.3.2. Long-term Customer Relationships
  - 3.3.3. Collateral
  - 3.3.4. Credit Rationing
- 3.4. Liability Management
  - 3.4.1. Deposits, Borrowings
  - 3.4.2. Capital Adequacy Management
- 3.5. Managing interest-rate risk
  - 3.5.1. Definition of interest-rate risk
  - 3.5.2. Gap and Duration Analysis
  - 3.5.3. Strategies for Managing Interest-rate risk

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 9

## CHAPTER 4 - THE MONEY SUPPLY PROCESS

This chapter provides an overview of how the banking system creates deposits. In the chapter, how the money supply is determined. Who controls it? What causes it to change? How to improve the control of it? The multiple deposit creation is examined by using simple model and complete model.

- 4.1. Multiple Deposit Creation
  - 4.1.1. Deposit Creation: The single bank
  - 4.1.2. Deposit Creation: The banking system
  - 4.1.3. The simple deposit multiplier
  - 4.1.4. Narrowing deposit multiplier process
  - 4.1.5. Critique of the simple model
- 4.2. The money supply model
  - 4.2.1. Deriving the money multiplier
  - 4.2.2. Factors that determine the Money multiplier
  - 4.2.3. Explaining the behaviors of players in the money supply process

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 13, 14

## CHAPTER 5 - MONETARY POLICY

Applying an appropriate monetary policy is crucial to the health of the economy. What is monetary policy? How does the central bank implement monetary policy? Above questions in this chapter will be answered.

### 5.1. Overview of monetary policy

#### 5.1.1. Definition

#### 5.1.2. Category

#### 5.1.3. The roles of monetary policy

### 5.2. Monetary policy goals

#### 5.2.1. The ultimate goals of monetary policy

#### 5.2.2. The intermediate targets of monetary policy

#### 5.2.3. The operating targets of monetary policy

### 5.3. Tools of monetary policy

#### 5.3.1. Open market operations

#### 5.3.2. Discount policy

#### 5.3.3. Reserve requirements

### 5.4. Monetary policy strategy and tactics

#### 5.4.1. Choosing intermediate targets

#### 5.4.2. Choosing the nominal anchors

### 5.5. The relationship between monetary policy and fiscal policy

#### 5.5.1. Category of fiscal policy

#### 5.5.2. Combining policies

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 15, 16

## CHAPTER 6 - INFLATION

In this chapter, we use aggregate demand and supply analysis to reveal the roles of monetary policy in creating inflation. What causes inflation? How does inflationary monetary policy come about? How does inflation affect economies? All above questions in this chapter will be discussed.

### 6.1. Definition and types of inflation

#### 6.1.1. Definition

#### 6.1.2. Types of inflation

### 6.2. Causes of inflation

#### 6.2.1. Keynesian view

#### 6.2.2. Monetarism view

#### 6.2.3. Monetary policy and inflation

### 6.3. Effects of inflation

#### 6.3.1. Inflation and interest rate

#### 6.3.2. Inflation and real income

#### 6.3.3. Inflation and Redistribution of Income and Wealth

- 6.3.4. Inflation and Public debt
- 6.4. Methods to control inflation
  - 6.4.1. Temporary methods
  - 6.4.2. Strategic methods

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 12

## CHAPTER 7 - INTERNATIONAL FINANCE

The development of international trade and cooperation, the trend of open integration and globalization create the international relationships. The basic factors of international finance include the foreign exchange market, the exchange rates, the Balance of payments and international financial institutions. They will be examined in this chapter.

- 7.1. The foundation of international financial relations
  - 7.1.1. The development of international trade and cooperation
  - 7.1.2. The trend of open integration and globalization
- 7.2. The Foreign Exchange market
  - 7.2.1. Definition and the roles of foreign exchange market
  - 7.2.2. Participants in foreign exchange market
- 7.3. Exchange rate
  - 7.3.1. Definition and the roles of exchange rate
  - 7.3.2. Exchange rate in the long run
  - 7.3.3. Exchange rate in the short run
  - 7.3.4. Intervention in the Foreign Exchange market
- 7.4. Balance of payments
  - 7.4.1. Definition and the roles of balance of payments
  - 7.4.2. Items in the balance of payments
  - 7.4.3. Balancing the balance of payments
- 7.5. The development of international financial system
  - 7.5.1. Gold standard
  - 7.5.2. The Bretton Woods System
  - 7.5.3. The modern international financial system
- 7.6. International financial institutions
  - 7.6.1. The International Monetary Fund (IMF)
  - 7.6.2. World Bank
  - 7.6.3. Asian Development Bank
  - 7.6.4. Bank for International Settlements

Texts and readings for the chapter:

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition, chapter 18, 19

## **7. REQUIRED TEXTBOOK & COURSE MATERIALS**

Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Pearson, 8<sup>th</sup> edition

## **8. ASSESSMENT & GRADING POLICY:**

### ***Grading policy:***

Attendance: 10%

Mid-term: 30%

Final exam: 60%

All of the marks are on the scale of 10.

***Criteria to take final exam:*** Students will be allowed to take the final exam when their minimum attendance mark is 2 and minimum midterm mark is 5;

***Final examination: a closed-book exam.***

**HEAD OF DEPARTMENT**

(signed)

**Assoc Prof.PhD. Cao Thi Y Nhi**

*Hanoi, 2016*

**PRESIDENT**

(signed)

**Prof.Dr. Tran Tho Dat**