

George Mason University
Money and Banking
Economics 310

Professor: Dr. Thomas Carl Rustici
Web Page: <http://mason.gmu.edu/~trustici/>
Phone: (703) 993-1137
Office: Enterprise Hall Room 322 (Fairfax Campus)
Office Hours: MWF 9:30-10:15am, 1:00-2:00pm
Tues. 3:30-4:00pm

Objectives:

The lectures and readings in this course are designed to familiarize students with the fundamentals of economic theory as it applies to monetary and banking institutions. In particular, the course will focus on the economic dynamics (information and transactions costs) that have propelled the historical evolution of money, credit and financial intermediation from the ancient world to the present. Related financial institutions such as bond, stock, and insurance markets are also explored in great detail as they relate to risk-management and modern portfolio theory.

Government intervention is also examined for its impact on money and capital markets. The course also highlights the structure of the Federal Reserve System, bank regulation and the mechanics of the international monetary framework. Finally, a wide variety of aspects relating to monetary policy are examined from an economic perspective. These topics include: the quantity theory of money, inflation, interest rates, "monetary rules vs discretion," the gold standard, free-banking, monetary theories of business cycles, deposit insurance, and electronic money (digital cyber-cash).

Grades:

There are four exams in this course, three short exams and a comprehensive final. There is also a required paper approximately 8-10 pages in length on any approved topic in money and banking. The paper is due one week before the final exam. Late papers will be penalized one letter grade for each day late. The grading scale used in this course is 90%-100% = A, 80%-89% = B, etc. The course grade is weighted as follows:

Exam 1:	15%
Exam 2:	15%
Exam 3:	15%
Paper:	25%
Final:	30%

Attendance:

Regular attendance is crucial for successful completion of this course. A large portion of the test material comes from the class lecture. If for any reason regular attendance becomes difficult, inform me as soon as possible. Furthermore, I expect students to be on their best behavior while in class. No horseplay, noise, eating or drinking etc. **Students who disrupt the class will be removed without warning and receive an immediate “F” for the course.**

Honor:

This course demands the highest standard of conduct. Cheating and/or plagiarism of any kind *is not tolerated*. Violation of this code results in an immediate “F” for the course and reported to the Honor Committee.

Texts:

Four books required for this course. These include:

<i>Money, the Financial System, and the Economy</i>	by R.Glenn Hubbard (GH)
<i>The Theory of Money and Credit</i>	by Ludwig von Mises (LM)
<i>Money Mischief</i>	by Milton Friedman (MF)
<i>The Denationalisation of Money</i>	by Friedrich von Hayek (FH)
<i>What Has Government Done to Our Money?</i>	by Murray N. Rothbard (MR)

There is also a wide variety of reading material on reserve desk at the Johnson Center library. While these articles will be very helpful for exam preparation and the course paper, they are not required unless prefaced with (*). Class handouts are denoted with a double asterisk (**).

Class Schedule:

Week 1: *The Monetary Economy: The Big Picture*

(GH) Chapters 1-2

(MF) Chapter 1

(LM) Chapters 1-3

(MR) pp. 1-6

(**) Leonard Reed, *I Pencil*

Faustino Ballve, *Money and Credit*

Week 2: *The Origin and Evolutionary Nature of Money*

(GH) Chapter 3

(LM) Chapters 4-6 also Appendix A pp.506-511

(FH) Chapters 1-3

(MR) pp. 6-26

(**) Adam Smith, *Of The Origin And Use Of Money*

(*) Carl Menger, *The Theory of Money*

W.H. Hutt, *The Nature of Money*

Suggested Books:

Rondo Cameron, **A Concise Economic History Of the World**

S. Herbert Frankel, **Money and Liberty**

Glyn Davies, **A History of Money**

Week 3: *The Quantity Theory and The Value of Money*

(LM) Chapters 7-11

(MF) Chapter 2

(FH) Chapter 4

(MR) pp.27-36

Adam Smith, *Of The Real and Nominal Price of Commodities*

Murray Rothbard, *Money and Its Purchasing Power*

R.A. Radford, *The Economic Organization of a P.O.W. Camp*

(**) Ludwig von Mises, *Stones To Bread: The Keynesian Miracle*

(**) Friedrich von Hayek, *The Economics of Abundance*

W.H. Hutt, *The Concepts of Inflation and Deflation.*

W.H. Hutt, *Keynes' Notion of True Inflation*

(**) Hans Sennholz, *The Value of Money*

(**) Robert Barro, *Money and Inflation Data Set*

Henry Hazlitt, *The Mirage of Inflation*

Suggested Books:

Milton Friedman, **The Quantity Theory of Money and Other Essays**

Robert Gordon, **Milton Friedman's Monetary Framework**

Ludwig von Mises, **Human Action: A Treatise on Economics**

Irving Fisher, **The Purchasing Power Of Money**

Ludwig Erhardt, **Prosperity Through Competition**

Hans Sennholz, **The Age of Inflation**

Week 4: *Government and Money: Episodes in Hyperinflation*

(GH) Chapter 28
(MF) Chapter 8
(LM) Chapters 12-14
(FH) Chapter 5-13
(MR) pp.37-49

Phillip Cagan, *The Monetary Dynamics of Hyperinflation*
G.C. Wiegand, *The Great Inflation Germany 1923 - USA ????*
Wilhelm Ropke, *The Fight Against Inflationism*
(**) Pelatiah Webster, *Not Worth A Continental*
Jerome Smith, *Hyperinflation: The End and the Beginning*
Jerome Smith, *Lessons From History on Official Paper Money Inflation*
Axel Leijonhufvud, *Costs and Consequences of Inflation*
(**) Michael Salemi, *Hyperinflation*
Cambridge Ancient History Vol. 12: The Roman Hyperinflation

Suggested Books:

Milton Friedman, **A Program For Monetary Stability**
Milton Friedman, **Dollars and Deficits**
Ludwig Von Mises, **On the Manipulation of Money and Credit**
Jerome Smith, **The Coming Currency Collapse**
Andrew Dickson White, **Fiat Money: Inflation in France**
Constantino Bresciani-Turroni, **The Economics of Inflation**

Week 5: *The Economic Function of Financial Intermediaries*

(GH) Chapters 11-14
(LM) Chapters 15-16
(FH) Chapter 14

Paul Heyne, *Information, Middlemen and Speculators*
Nathan Rosenberg and L.E. Birdzell, Jr., *The Evolution of Institutions Favorable to Commerce*
Henry Hazlitt, *The Assault on Saving*
Friedrich von Hayek, *A Note on the Development of the Doctrine of Forced Savings*

Suggested Books:

Murray Rothbard, **The Mystery of Banking**
John Maynard Keynes, **A Treatise on Money**

Exam 1

Week 6: *Pre-1913 US Monetary History*

(LM) Chapters 17-18
(FH) Chapters 15-16

Jeremy Attack and Peter Passell, *Money and Banking Before the Civil War*
(**) Clarence B. Carson, *The Constitution and Paper Money*
Gregory Chistainsen, *Fiat Money and the Constitution: A Historical Review*
Gerald Gunderson, *Developing Twentieth Century Financial Mechanisms*
William Woodridge, *Every Man His Own Mintmaster*

Suggested Books:

Murray Rothbard, **The Panic of 1819: Reaction and Policies**
Melchior Palyi, **The Twilight of Gold**
Douglas North, **Growth and Welfare in the American Past**
Steve Horwitz, **Monetary Evolution, Free Banking and Economic Order**

Week 7: *Overview of The Federal Reserve System: Structure, Purposes and Monetary Instruments*

(GH) Chapters 17-20
(MF) Chapter 6
(LM) Chapters 19-20
(FH) Chapters 17-18

Murray N. Rothbard, *Austrian Definitions of the Supply of Money*
Edwin Vieira, *To Regulate The Value Of Money: An Analysis Of the Power Of Government To Create and Set a Value On Money*
(*) Thomas Rustici, *Moral Philosophy and Monetary Vision*

Suggested Books:

Barry Poulson, **An Economic History of the United States**
S. Herbert Frankel, **Two Philosophies of Money**
Lester Chandler, **Benjamin Strong, Central Banker**
Elgin Groseclose, **Fifty Years of Managed Money: The Story of the Federal Reserve, 1913-1963**
Vera Smith, **The Rationale of Central Banking**
Richard Timberlake, **The Origins of Central Banking In The United States**
Ralph Bryant ed., **Controlling Money: The Federal Reserve and Its Critics**

Week 8: *Expectations, Interest Rates, and Monetary Policy*

(GH) Chapter 4,6,7,21,23
(LM) Chapter 21
(FH) Chapters 19-21

(*) Milton Friedman, *The Role of Monetary Policy*
(*) Milton Friedman, *Nobel Lecture: Inflation and Unemployment*
Milton Friedman, *The Quantity Theory of Money*
Murray Rothbard, *Production: The Rate of Interest and Its Determination*
Roger Garrison, *Time and Money: Universals of Macro Theorizing*
Axel Leijonhufvud, *Inflation and the Economists: A Critique*
David Laidler, *Monetarism: An Assessment*
Martin Baily, *The Welfare Cost of Inflationary Finance*
Charles Rowley and Jack Wiseman, *Inflation versus Unemployment: Is The Government Important?*

Suggested Books:

Gottfried Haberler, **Prosperity and Depression**
John Maynard Keynes, **Tract on Monetary Reform**
John Maynard Keynes, **The General Theory of Employment, Interest and Money**
Irving Fisher, **The Rate Of Interest**
Friedrich von Hayek, **Monetary Theory and the Trade Cycle**
Henry Hazlitt, **The Failure of the New Economics**
Eugen von Bohm Bawerk, **Capital and Interest Vol. 1-3**
Frank Fetter, **Capital, Interest and Rent: Essays in the Theory of Distribution**
Wilhelm Ropke, **Against The Tide**

Week 9: *Federal Reserve Policy and Bank Regulation From the Great Depression to the Present*

(FH) Chapters 22-23

Milton Friedman and Anna Schwartz, *The Great Contraction*
Alan Meltzer, *Monetary and Other Explanations of the Start of the Great Depression*
Robert Tollison, William Shugart and Gary Anderson, *A Public Choice Theory of the Great Contraction*
Jeremy Attack and Peter Passell, *Structural Change In America's Financial Markets*
Richard Salsman, *Bankers as Scapegoats for Government-Created Banking Crises in U.S. History*
(*) Thomas Rustici, *The Classical Macro Model and the Keynesian Revolution*

Suggested Books:

Thomas Rustici, **The Economic Effects of the Smoot-Hawley Tariff Act of 1930 and the Beginning of America's Great Depression**
Milton Friedman and Anna Schwartz, **Monetary History of the United States 1867-1960**

Richard Vedder and Lowell Gallaway, **Out of Work: Government and Unemployment in the Twentieth Century**

Murray Rothbard, **America's Great Depression**

Murray Rothbard and Garett Garrett, **The Great Depression and New Deal Monetary Policy**

Garett Garrett, **The People's Pottage**

Benjamin Anderson, **Economics and the Public Welfare: A Financial and Economic History Of the United States 1914-1946**

Gerald Gunderson, **A New Economic History of America**

Charles Kindleberger, **The World in Depression**

Friedrich von Hayek, **A Tiger By the Tail: The Keynesian Legacy of Inflation**

John Flynn, **The Roosevelt Myth**

Exam 2

Week 10: *The Market for Stocks, Bonds and Derivatives*

(GH) Chapter 9, 10

(*) Burton Malkiel, *Modern Portfolio and Asset-Pricing Theory*

(**) Amar Bhidé, *In Praise of Corporate Raiders*

Henry Manne, *Mergers and The Market For Corporate Control*

(*) Data sets on Junk Bonds

Suggested Books:

Burton Malkiel, **A Random Walk Down Wall Street**

Daniel Fischel, **Payback: The Conspiracy To Destroy Michael Milken and His Financial Revolution**

Week 11: *Risk Management and Portfolio Theory*

(GH) Chapter 5

Merton Miller, *Leverage*

(**) Richard Zeckhauser, *Insurance*

(*) Burton Malkiel, *The Current State of the Art: Beyond Beta*

Suggested Books:

Peter Bernstein, **Against the Gods: A Remarkable Story of Risk**

William Sharpe, **Portfolio Theory and Capital Markets**

Week 12: *The Transformation of the International Monetary System*

(GH) Chapters 8,16,22

(MR) pp.50-62

(*) Harry Johnson, *The International Monetary System and the Rule of Law*

(*) Milton Friedman, *The Case For Flexible Exchange Rates*

Suggested Books:

Gottfried Haberler, **Economic Growth and Stability**

Exam 3

Week 13: *Alternative Monetary Policy Regimes: Discretion, Rules, Commodity Standard or Free-Banking*

(LM) Chapters 22-23

(MF) Chapters 8-10

(FH) Chapters 24-25

(*) Milton Friedman, *Nobel Lecture*

(**) Alan Greenspan, *Gold and Economic Freedom*

Joseph Salerno, *Gold Standards: True and False*

(*) Lawrence White, *Competitive Money, Inside and Out*

Lawrence White, *Depoliticizing the Supply of Money*

Franco Modigliani, *The Monetarist Controversy: Or Should We Forsake Stabilization Policies?*

Hugh Rockoff, *The Free Banking Era: A Reexamination*

Suggested Books:

Lawrence White, **Free Banking in England: Theory, Experience and Policy**

Kevin Dowd, **Laissez-faire Banking**

George Selgin, **The Theory of Free Banking**

George Selgin, **Less Than Zero: The Case For a Falling Price Level**

Leland Yeager, **In Search of a Monetary Constitution**

Ron Paul, **The Case For Gold**

James Buchanan and H. Geoffrey Brennan, **Monopoly in Money and Inflation**

Week 14: *Government Regulation, Financial Markets and Current Public Policy Problems*

(*) Milton Friedman, *Monetary Policy in a Fiat World*

Kevin Grier, *Congressional Influence on U. S. Monetary Policy*

Lawrence White, *Why Is The U.S. Banking Industry in Trouble? Business cycles, Loan Losses, and Deposit Insurance*

Thomas Havrilesky, *An Empirical Analysis of Public Choice Aspects of the Savings and Loan Disaster*

Walker Todd and Gerald P. O'Driscoll, Jr., *Deposit Insurance Reform Is Not Enough*

(*) Clifford Thies and Daniel Gerlowski, *Deposit Insurance: A History of Failure*

Suggested Books:

Thomas Willett, ed., **Political Business Cycles: The Political Economy Of Money, Inftation and Unemployment**

Week 15: *The Future of Money and Banking*

George Kaufman, *The Diminishing Role of Commercial Banking in the U.S. Economy*

Final Exam Friday December 12, 4:30 - 7:15 p.m.