ECONOMICS, MONEY MARKETS AND BANKING

SECTION LEADER: JAMES JOHANNES

DESCRIPTION
This course offers a broad and practical examination of 1) the current economic environment and how it impacts bankers, 2) an introduction to the key determinants of interest rates and the term structure on interest rates, and 3) a practitioner’s guide to monetary and fiscal policy issues of current relevance to bankers.

Topics covered in this course include:
- Macroeconomics in the bank, including bank budgeting, bank loans and the business cycle, and GAP management
- Economic myths and realities, including discussions of pegging interest rates, financing deficits, lowering interest rates, and business cycles
- Economic indicators, such as the federal funds rate, discount rate, and short-term and long-term treasury rates
- Yield curve spreads
- Interest rates, the dollar, inflation
- Gross domestic product and components
- The Federal Reserve and the Treasury
- Money stock determination and monetary policy

PURPOSE
The purpose of this course is threefold:
- To provide a basic understanding of the economic forces that drive the economy and affect interest rates so that bankers have an easier time fulfilling their role as “local economists” and an easier time understanding economic news
- To breathe life into the somewhat sterile economic and accounting constructs that are common in bank performance analysis by demonstrating how economic events manifest themselves in net interest margins, spreads, ROA, etc.
- To show how bankers can use financial markets and financial strategies to mitigate risks associated with changes in economic conditions and, hopefully, smooth earnings and preserve capital

OBJECTIVES
After successfully completing this course, students will be able to:
- Give examples of key bank decisions that require some knowledge of economics
- List key economic indicators, describe what they are, and indicate where to find them
- Understand the macro financial system, including the Federal Reserve and the Treasury and the roles they play in determining economic activity and interest rates
- Review key current economic events and their likely impact on the economy and banking
- Understand how changes in economic condition affect bank performance measures
- Discuss, intuitively, basic risk management tools and strategies that are designed to stabilize earnings and capital