MARYLAND BANKERS ASSOCIATION

Financial Institutions & the Economy I

Dr. R. Andrew Bauer

The Federal Reserve Bank of Richmond—Baltimore Branch

Financial Institutions and the Economy I

Instructor: Dr. R. Andrew Bauer (Andy)

Course Description: This course provides students with a basic understanding of the economy, how economic indicators are used to gauge the strength of the macroeconomic and regional economy, and current issues in the economy, financial markets, and the banking sector. In addition the course covers the structure of the Federal Reserve and the conduct of monetary policy.

Time:	Monday	1:00 p.m. – 3:00 p.m.
	Tuesday	3:15 p.m. – 4:30 p.m.
	Tuesday	4:45 p.m. – 5:45 p.m.
	Wednesday	3:00 p.m. – 5:00 p.m.

Course Outline:

Monday/Tuesday

Assessing the U.S. and Maryland Economies

I. Economic growth
    a. Determinants of long-run (potential) growth
    b. Estimates of potential growth
II. U.S. Economy and the Business Cycle
    a. Review of the business cycle
    b. Following the economy: measuring output
        i. Real GDP & its components
        ii. Real-time measures (nowcasting & surveys)
        iii. Industry sectors (consumer, manufacturing, business investment, housing, commercial real estate)
    c. Following the economy: labor market
        i. Role of labor market
        ii. Importance of productivity
        iii. Current labor market issues
        iv. Principle sources for labor market information
    d. Following the economy: financial markets
        i. Impact on consumer sector and business investment
        ii. Assessing household financial conditions
    e. Following the economy: inflation
        i. What causes inflation

        ii. Measuring inflation
        iii. Inflation expectations
    f. Following the economy: forecasts
    g. Assessing the regional economy

Tuesday/Wednesday

Monetary policy

I. Basics of monetary policy
    a. Broad definition
    b. Federal Reserve's dual mandate

II. Inflation: why is it costly
    a. High inflation leads to high nominal interest rates
    b. Unanticipated costs and income redistribution
    c. Negatively impacts long-term planning

III. When is there a role for monetary policy?
    a. Potential growth: determined by employment growth and productivity
    b. An economy operating at potential
    c. Output gaps

IV. Implementing monetary policy
    a. Monetary policy tools
    b. Opportunity cost of money
    c. Responding to output gaps
    d. Limitation of monetary policy
    e. Unconventional monetary policy
        i. Short-term rates close to zero
        ii. Large scale asset purchases
        iii. Forward guidance

V. Discussion: Where is policy now?