

## **ii. DSE 2: Money and Banking:**

### **Course Description**

This course exposes students to the theory and functioning of the monetary and financial sectors of the economy. It highlights the organization, structure and role of financial markets and institutions. It also discusses interest rates, monetary management and instruments of monetary control. Financial and banking sector reforms and monetary policy with special reference to India are also covered.

### **Course Outline**

#### **1. Money**

Concept, functions, measurement; theories of money supply determination.

#### **2. Financial Institutions, Markets, Instruments and Financial Innovations**

a. Role of financial markets and institutions; problem of asymmetric information – adverse selection and moral hazard; financial crises.

b. Money and capital markets: organization, structure and reforms in India; role of financial derivatives and other innovations.

#### **3. Interest Rates**

Determination; sources of interest rate differentials; theories of term structure of interest rates; interest rates in India.

#### **4. Banking System**

a. Balance sheet and portfolio management.

b. Indian banking system: Changing role and structure; banking sector reforms.

#### **5. Central Banking and Monetary Policy**

Functions, balance sheet; goals, targets, indicators and instruments of monetary control; monetary management in an open economy; current monetary policy of India.

### **Readings**

1. F. S. Mishkin and S. G. Eakins, *Financial Markets and Institutions*, Pearson Education, 6<sup>th</sup> edition, 2009.

2. F. J. Fabozzi, F. Modigliani, F. J. Jones, M. G. Ferri, *Foundations of Financial Markets and Institutions*, Pearson Education, 3<sup>rd</sup> edition, 2009.

3. L. M. Bhole and J. Mahukud, *Financial Institutions and Markets*, Tata McGraw Hill, 5<sup>th</sup> edition, 2011.

4. M. Y. Khan, *Indian Financial System*, Tata McGraw Hill, 7<sup>th</sup> edition, 2011.

5. Various latest issues of R.B.I. Bulletins, Annual Reports, Reports on Currency and Finance and Reports of the Working Group, IMF Staff Papers.