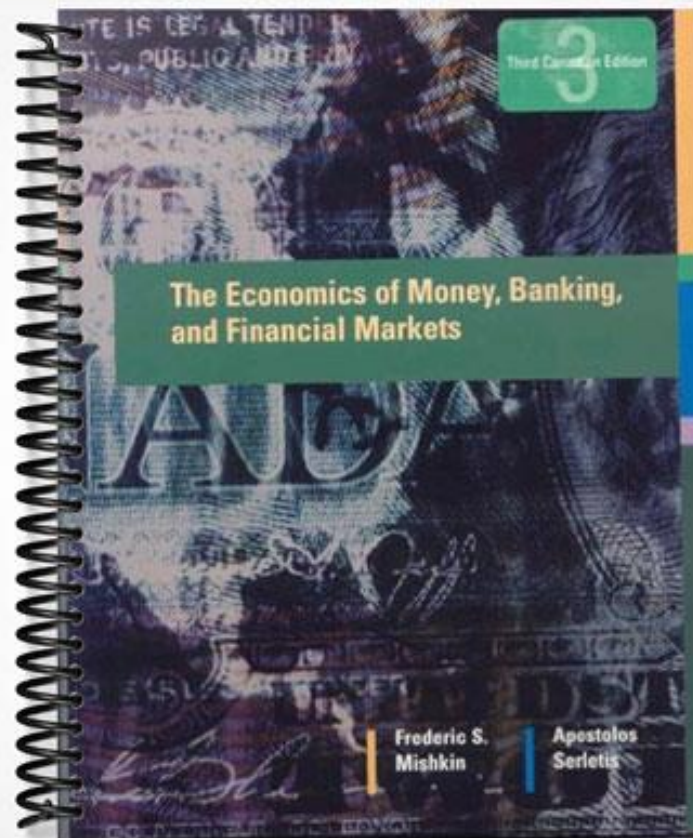


SOLUTIONS MANUAL



Part One

How to Use the Instructor's Resource Manual and Other Textbook Ancillaries

Organization of the Instructor's Resource Manual

To help instructors cope with the increased demands for good teaching in recent years, *The Economics of Money, Banking, and Financial Markets*, Third Canadian Edition, includes the most comprehensive package of supplementary materials of any money, banking, and financial markets textbook. As part of these supplemental materials, we have designed the Instructor's Resource Manual to help save you time in preparing class materials such as class outlines, solutions to homework problems, lecture notes, and overhead transparencies.

This Instructor's Resource Manual is divided into four parts. Part One discusses how to use the Instructor's Resource Manual and the other textbook ancillaries to make your teaching of the money and banking course both more effective and less time consuming. Part Two contains an overview of all the textbook chapters along with teaching tips that we have found effective. Part Three contains the answers to the end-of-chapter problems that are not answered in the back of the textbook, and so are excellent candidates for assignment as problem sets. Part Four contains transparency masters of chapter outlines, which can be used either to make overhead transparencies for use in class or to make handouts for the students.

To obtain any of the available ancillaries, adopters of the text just need to get in touch with their Pearson Addison Wesley sales representative.

Alternative Course Outlines

There are many different ways to teach a course on money, banking, and financial markets. For this reason, the material in *The Economics of Money, Banking, and Financial Markets*, Third Canadian Edition, has been arranged with flexibility in mind, so that many teaching styles can be accommodated. The following sections suggest sample outlines for four main approaches to teaching money, banking, and financial markets, showing how the text can be adapted to each approach, as well as to quarter and semester teaching schedules. Note, however, that many variations on these outlines are possible.

Outline for General Money and Banking Course

Core Chapters

Chapter No.	Chapter Title
1.	Why Study Money, Banking, and Financial Markets?
2.	An Overview of the Financial System
3.	What Is Money?
4.	Understanding Interest Rates
5.	The Behaviour of Interest Rates
9.	Banking and the Management of Financial Institutions
10.	Banking Industry: Structure and Competition
11.	Economic Analysis of Banking Regulation
14.	Structure of Central Banks and the Bank of Canada
17.	Tools of Monetary Policy
18.	What Should Central Banks Do? Monetary Policy Goals, Strategy and Tactics
24.	Aggregate Demand and Supply Analysis
26.	Money and Inflation

For a one-semester course, cover any six of the following optional chapters:

Chapter No.	Chapter Title
6.	The Risk and Term Structure of Interest Rates
7.	The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
8.	An Economic Analysis of Financial Structure
12.	Risk Management in Financial Institutions
13.	Hedging with Financial Derivatives
15.	Multiple Deposit Creation and the Money Supply Process
16.	Determinants of the Money Supply
19.	The Foreign Exchange Market
20.	The International Financial System

21. The Demand for Money
22. The *ISLM* Model
23. Monetary and Fiscal Policy in the *ISLM* Model
25. Transmission Mechanisms of Monetary Policy: The Evidence
27. Rational Expectations: Implications for Policy

Outline for General Money and Banking Course with an International Emphasis

Core Chapters

Chapter No. Chapter Title

1. Why Study Money, Banking, and Financial Markets?
2. An Overview of the Financial System
3. What Is Money?
4. Understanding Interest Rates
5. The Behaviour of Interest Rates
9. Banking and the Management of Financial Institutions
10. Banking Industry: Structure and Competition
11. Economic Analysis of Banking Regulation
14. Structure of Central Banks and the Bank of Canada
17. Tools of Monetary Policy
18. What Should Central Banks Do? Monetary Policy Goals, Strategy and Tactics
19. The Foreign Exchange Market
20. The International Financial System
24. Aggregate Demand and Supply Analysis
26. Money and Inflation

For a one-semester course, cover any four of the following optional chapters:

Chapter No. Chapter Title

6. The Risk and Term Structure of Interest Rates
7. The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
8. An Economic Analysis of Financial Structure
12. Risk Management in Financial Institutions
13. Hedging with Financial Derivatives
15. Multiple Deposit Creation and the Money Supply Process
16. Determinants of the Money Supply
21. The Demand for Money
22. The *ISLM* Model
23. Monetary and Fiscal Policy in the *ISLM* Model
25. Transmission Mechanisms of Monetary Policy: The Evidence
27. Rational Expectations: Implications for Policy

Outline for Financial Markets and Institutions Course

Core Chapters

Chapter No.	Chapter Title
1.	Why Study Money, Banking, and Financial Markets?
2.	An Overview of the Financial System
3.	What Is Money?
4.	Understanding Interest Rates
5.	The Behaviour of Interest Rates
6.	The Risk and Term Structure of Interest Rates
7.	The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
8.	An Economic Analysis of Financial Structure
9.	Banking and the Management of Financial Institutions
10.	Banking Industry: Structure and Competition
11.	Economic Analysis of Banking Regulation
12.	Risk Management in Financial Institutions
13.	Hedging with Financial Derivatives

For a one-semester course, cover any six of the following optional chapters:

Chapter No.	Chapter Title
14.	Structure of Central Banks and the Bank of Canada
15.	Multiple Deposit Creation and the Money Supply Process
16.	Determinants of the Money Supply
17.	Tools of Monetary Policy
18.	What Should Central Banks Do? Monetary Policy Goals, Strategy and Tactics
19.	The Foreign Exchange Market
20.	The International Financial System
21.	Monetary Policy Strategy: The International Experience
21.	The Demand for Money
22.	The <i>ISLM</i> Model
23.	Monetary and Fiscal Policy in the <i>ISLM</i> Model
24.	Aggregate Demand and Supply Analysis
25.	Transmission Mechanisms of Monetary Policy: The Evidence
26.	Money and Inflation
27.	Rational Expectations: Implications for Policy

Outline for Monetary Theory and Policy Course

Core Chapters

Chapter No. Chapter Title

1. Why Study Money, Banking, and Financial Markets?
2. An Overview of the Financial System
3. What Is Money?
4. Understanding Interest Rates
5. The Behaviour of Interest Rates
14. Structure of Central Banks and the Bank of Canada
15. Multiple Deposit Creation and the Money Supply Process
17. Tools of Monetary Policy
18. What Should Central Banks Do? Monetary Policy Goals, Strategy and Tactics
24. Aggregate Demand and Supply Analysis
25. Transmission Mechanisms of Monetary Policy: The Evidence
26. Money and Inflation
27. Rational Expectations: Implications for Policy

For a one-semester course, cover any six of the following optional chapters:

Chapter No. Chapter Title

6. The Risk and Term Structure of Interest Rates
7. The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
8. An Economic Analysis of Financial Structure
9. Banking and the Management of Financial Institutions
10. Banking Industry: Structure and Competition
11. Economic Analysis of Banking Regulation
12. Risk Management in Financial Institutions
13. Hedging with Financial Derivatives
16. Determinants of the Money Supply
19. The Foreign Exchange Market
20. The International Financial System
21. The Demand for Money
22. The *ISLM* Model
23. Monetary and Fiscal Policy in the *ISLM* Model

Overviews of the Textbook Chapters and Teaching Tips

We have been teaching money and banking now for over twenty years. The overviews and teaching tips in Part Two of the Instructor's Resource Manual are intended to share with you some of our experiences in the classroom with teaching the material in the textbook. The overview and teaching tips for each chapter provide a brief description of the contents of the chapter, discuss the novel features of the chapter, indicate what central points need to be transmitted to the student, suggest teaching tips that we have found useful in class, and provide guidance as to what material can easily be skipped in each chapter.

Answers to End-of-Chapter Problems

Part Three of the Instructor's Resource Manual contains the answers to those end-of-chapter problems not marked with an asterisk and hence not answered in the back of the textbook. (Those with an asterisk are answered at the back of the textbook.) Some of these questions require students to look up current data, and in these cases no answers are given; however, for the rest of the questions the answers are quite complete.

Many instructors will use the end-of-chapter questions without asterisks for homework assignments, as we do. We have found it useful to hand out answers to the questions provided in Part Three to the students as solutions sets after they have completed their assignments; they find them to be an invaluable study aid.

Transparency Masters of Chapter Outlines

Part Four of the Instructor's Resource Manual comprises transparency masters of the chapter outlines, which contain all the headings from each chapter.

These can be used in two ways:

1. the transparency master can be photocopied and handed out before class so that the student can more easily follow the flow of the lecture, or
2. the transparency master can be used to make an overhead transparency that can be shown at the beginning of the class to help outline and motivate the lecture for the students.

PowerPoint Slides

A separate CD-ROM contains a set of over 350 PowerPoint slides that contain lecture notes and all the textbook's figures and tables. This set of slides is comprehensive and outlines all the major points covered in the text. The lecture notes have been class tested successfully and they should help other instructors prepare their lectures.

Test Bank and Computerized Testing

The test bank contains over 3,500 multiple-choice questions, many with graphs, that are appropriate for use as quiz or test questions. It is provided in both printed and electronic formats. These various forms provide alternative methods for the instructor to make up exams.

The Pearson Education Canada TestGen software is a computerized test generator that lets you construct tests by choosing questions from the item bank that was prepared specifically for this textbook and your course. Test questions can be edited, saved, or printed. In addition, you can add questions which may include graphics.

Web Site

The web site for *The Economics of Money, Banking, and Financial Markets*, Third Canadian Edition, can be accessed at www.pearsoned.ca/text/mishkin. It features a variety of resources for both students and instructors:

- appendices covering advanced topics,
- annotated Web links,
- updates, and
- practice quiz questions.

Study Guide

The only way to learn effectively about money, banking, and financial markets is by continual, and active, application of the basic concepts developed in the textbook. To help the student in this endeavour, we have written the *Study Guide*.

The Study Guide contains the following elements for each chapter:

Chapter Review:

Each chapter begins with a summary of the chapter. The chapter review is divided into sections based on the section headings provided in the text.

Helpful Hints:

This section provides some additional suggestions and examples to help clarify the more difficult material.

Terms and Definitions:

Students match key terms from the text to their definitions. This section is particularly important because a working economic and financial vocabulary is necessary in order for the student to advance through the material.

Problems and Short-Answer Questions:

We provide a number of multi-step problems that require numerical, graphical, or written solutions. The problems are based on the larger issues developed in the chapter. Smaller issues are addressed with approximately ten short-answer questions.

Critical Thinking:

This section provides a single multi-step problem that is an application of one of the major issues developed in the chapter.

Self-Test:

The self-test section provides fifteen true/false and twenty multiple-choice questions to validate areas of successful learning and to highlight areas needing improvement.

Solutions:

Detailed solutions for all problems and questions are provided at the end of each chapter.