COURSE OVERVIEW • X-BIN ELECTIVE • 2026-2027

Money and Banking

How can a bank own more than it owes and still run short of cash tomorrow? Why would anyone buy insurance that costs more than the average loss? In Money and Banking, we follow decisions like these from the perspective of borrowers, savers, lenders, and investors. Students will learn to trace payments, question assumptions, and explain who bears a loss when a plan goes wrong.

What students will learn

• Explain how banks, borrowers, investors, and the Federal Reserve interact.

• Use simple calculations and diagrams to compare financial choices and trace cash flows.

• Distinguish cash shortages from deeper financial problems, and explain how borrowing can magnify gains and losses.

• Evaluate financial claims by identifying assumptions, incentives, evidence, and tradeoffs.

How we will learn

At Meeting 1, Mr. Javarone described his work in finance and discussed the distinction between commercial and investment banking. Most core lessons open with a decision. Should a depositor withdraw cash? Should a founder borrow or sell shares? We use discussion, group activities, and short calculations to test our answers. No previous economics or finance course is required.

Course materials

Each student will receive one printed book containing the lesson readings, explanations, worked examples, and workbook activities. There is space to calculate, sketch, and record ideas during class. Our course webpage will also have a digital copy of the book and a separate PDF containing the same preparation readings.

Preparing for class

At Meeting 2 we read Lesson 1 together. After class, read only the READ page for Lesson 2, student book p. 10, for Meeting 3. Allow three to five minutes and consider its closing question. There is nothing to turn in. The optional digital reading copy repeats these READ pages. We watch any videos in class.

The 26-meeting plan opens with the industry discussion. Meetings 2-23 cover the 22 core lessons. Meetings 24-26 are flexible for a possible guest or longer discussions. If the schedule shifts, follow the assigned lesson number.

COURSE MAP / UNITS 1-3

Money, rates, and risk

We begin with everyday promises and payments, then examine the risks that borrowers, banks, and investors face.

UNIT 1 / LESSONS 1-4 / MEETINGS 2-5

Money, banks, and trust

What makes money useful, and why does a bank depend on trust?

- Meeting 2 • Lesson 01 | Money as a usable promise
- Meeting 3 • Lesson 02 | A bank makes a loan
- Meeting 4 • Lesson 03 | Capital is not cash
- Meeting 5 • Lesson 04 | A run on a bank

Follow a loan and a payment through a bank's accounts, then distinguish an immediate cash shortage from losses that threaten the bank's ability to meet its obligations.

UNIT 2 / LESSONS 5-7 / MEETINGS 6-8

Interest rates and the Federal Reserve

What determines the value of money received in the future?

- Meeting 6 • Lesson 05 | Why a bond price changes
- Meeting 7 • Lesson 06 | Inflation and real returns
- Meeting 8 • Lesson 07 | Overnight money and the Fed

Connect bond prices, interest rates, and purchasing power, and explore how the Federal Reserve influences the cost of short-term borrowing.

UNIT 3 / LESSONS 8-11 / MEETINGS 9-12

Risk and decisions under uncertainty

How can we manage risk when we cannot know what comes next?

- Meeting 9 • Lesson 08 | Insurance and expected value
- Meeting 10 • Lesson 09 | Diversification under stress
- Meeting 11 • Lesson 10 | Leverage and forced selling
- Meeting 12 • Lesson 11 | Options and asymmetric payoffs

Compare ways to share, reduce, or take on risk. Examine when insurance, diversification, and financial contracts help, and what risks remain.

COURSE MAP / UNITS 4-6

Businesses, crises, and judgment

We use the foundations to examine business financing and historical cases, then bring the ideas together in a final discussion of financial safeguards.

UNIT 4 / LESSONS 12-14 / MEETINGS 13-15

Financing businesses and projects

Who supplies the money, who has control, and who gets paid first?

- Meeting 13 • Lesson 12 | Funding a new business
- Meeting 14 • Lesson 13 | Financing a project
- Meeting 15 • Lesson 14 | Buying a company with debt

Compare borrowing with selling an ownership stake. Follow cash through a business or project, and consider the benefits and risks of using debt to buy a company.

UNIT 5 / LESSONS 15-18 / MEETINGS 16-19

Mortgages, structured credit, and 2008

How can problems in home loans spread through the financial system?

- Meeting 16 • Lesson 15 | From mortgages to securities
- Meeting 17 • Lesson 16 | Who takes the first loss?
- Meeting 18 • Lesson 17 | When overnight lenders leave
- Meeting 19 • Lesson 18 | 2008: intervention and tradeoffs

Trace mortgage payments into investments, explore how losses are divided, and weigh the tradeoffs of intervention when financial trouble spreads.

UNIT 6 / LESSONS 19-22 / MEETINGS 20-23

Models, incentives, and financial failure

Why can smart people, convincing numbers, and strong reputations fail?

- Meeting 20 • Lesson 19 | A trade that should converge
- Meeting 21 • Lesson 20 | LTCM: surviving until convergence
- Meeting 22 • Lesson 21 | Enron: earnings, cash, and trust
- Meeting 23 • Lesson 22 | Design a system that can withstand stress

Use Long-Term Capital Management and Enron to examine model assumptions, funding pressures, disclosure, and incentives. Finish by proposing and defending safeguards for a financial system under stress.

OPTIONAL FURTHER READING

Finance through real stories

These five optional books explore the history and culture of finance through people who worked on trading floors, arranged buyouts, investigated fraud, or tried to rescue troubled firms. Choose whichever story interests you. The short assigned readings are in the student book, and none of these five books needs to be purchased.

Book titles link to publisher or author information.

Liar's Poker | Michael Lewis

Lewis recalls selling bonds at Salomon Brothers in the 1980s. His firsthand account shows what newcomers on a trading floor learned about customers, competition, and the people who earned the largest bonuses.

Trading culture, bonds, and incentives

When Genius Failed | Roger Lowenstein

Lowenstein follows Long-Term Capital Management from its early success to the losses that threatened its survival. Read it alongside our discussion of what happens when several lenders want their money back at once.

Leverage, liquidity, and model risk

Barbarians at the Gate | Bryan Burrough and John Helyar

Burrough and Helyar follow the competing bidders for RJR Nabisco. As the offers rise, consider how the deal looks to a shareholder ready to sell, a manager who wants control, and a lender counting on repayment.

Acquisitions, debt, and corporate control

The Smartest Guys in the Room | Bethany McLean and Peter Elkind

McLean and Elkind investigate the people and decisions behind Enron's rise and collapse. Their account gives readers reason to ask what reported earnings tell a lender and what the lender still needs to check.

Enron, accounting, and governance

Den of Thieves | James B. Stewart

Stewart follows the Wall Street insider-trading scandals of the 1980s and the investigations that exposed them. His reporting gives our discussion of confidential information and market fairness a concrete setting.

Information, ethics, and market fairness

These accounts focus on particular periods and institutions. As you read, ask whose perspective is being presented, what evidence supports the explanation, and how the people involved were rewarded for their decisions.