

ITHACA COLLEGE

Economics 32200-1: *Monetary Theory and Policy*

Sec. #: 01
Term: Spring 2016
Class Time: TR, 4:00 p.m. – 5:15 p.m.
Room: Friends Hall 301
Office Hours: Tuesdays: 12:05 p.m. – 1:00 p.m.,
Wednesdays 11:30-1:30 p.m. and by appointment

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Class website
<https://sakai.ithaca.edu>

I. COURSE DESCRIPTION

This course is concerned with the evolving theoretical and practical aspects of monetary policy. Monetary policy can be a powerful tool to stabilize the economy from business cycle fluctuations, yet “best practices” for monetary policymaking have continuously evolved over time. This class will cover macroeconomic theories that help establish core principles of good central banking, as well as the instruments, tools, and policy rules that make up the central bank toolkit. Special emphasis will be placed on unconventional monetary policy instruments in the U.S. which were formulated in response to the 2007-09 Global Financial Crisis.

Pre-requisites: Econ 12200 (Principles of Microeconomics), and Econ 12100 (Principles of Macroeconomics), and two courses in humanities, social science or business. This class builds on Econ 32100 Money and Banking and/or FINA 20300 Financial Markets and Institutions.

II. TEXTBOOK AND OTHER RESOURCES

There is no one required textbook for this class. Class materials will be drawn from a number of different sources, including textbooks, journal articles, and economic and financial reports from the Federal Reserve. *Required readings will be provided electronically by the instructor via Sakai.* Be sure to check Sakai website regularly for important class and schedule-related announcements.

Sakai Readings:

Materials for the third and fourth part of the class will be largely based on journal articles and reports from central banks (see pp. 4-5 of this syllabus). A full listing of the readings for this portion of the course will be made available by the 5th week of the semester.

News and Current Events – Students are expected to regularly read economic and financial news including (but not limited to) The Wall Street Journal, The Financial Times, the New York Times and the Economist. Be prepared to discuss important events related to topics of monetary policy, the financial crisis and other themes of the class. Some articles on WSJ and FT are available through their Facebook pages.

If you would like to purchase some of the course materials here are a few textbooks and trade books recommended for purchase. I will refer to these readings throughout the class.

Cecchetti, Stephen and Kermit L. Schoenholtz, *Money, Banking, and Financial Markets*, 4th Edition. (McGraw Hill)

ISBN #: 978-0-07-802174-9

Mishkin, Frederic, *The Economics of Money, Banking, and Financial Markets*, 11th Edition (Pearson)

ISBN #: 978- 0-13-383679-0

Irwin, Neil. *The Alchemists: Three Central Bankers and a World on Fire*. Penguin, 2013.

ISBN #: 978-0143124993

Blinder, Alan S. *After the music stopped: The financial crisis, the response, and the work ahead*. Penguin, 2013.

ISBN #: 978-0143124481

III. COURSE OBJECTIVES

- Understand the application of instruments, tools, and policy rules that make up the central bank toolkit, and how they have changed over time.
- Understand monetary theory, a set of macroeconomic models of how monetary policy affects the real economy.
- Understand key issues and debates regarding the institutional structure of central banks.
- Obtain an overview of contemporary and age-old ideas to evaluate how central banks should manage their economies.
- Obtain an overview of how monetary policy should be used to respond to recessions and financial crises.

IV. ASSESSMENT

The following activities will be used to assess mastery of course content.

A. **Exams:** There will be three exams administered throughout the semester. The materials covered in the final exam will be cumulative. The intended examination dates are:

Test 1: Thursday, February 18

Test 2: Tuesday, March 29

Take-Home Final exam: Due Thursday, May 12 (before midnight)

Exam rescheduling policy: No make-up/rescheduled test will be given unless there is a valid excuse (e.g., serious injury/illness with doctor's letter, death in the immediate family, a religious observance, or jury duty) with appropriate documentation.

B. **Homework Assignments:** A number of written homework assignments will be given throughout the semester. These will be uploaded in PDF format via Sakai. *Late homework will not be accepted.* The assignments are a combination of data search and data analysis, problem solving, as well as analytical write ups on a series of thematic questions

C. **Extended Essays:** You will write an argumentative essay and take a position on questions that are highly debated in monetary policy (5-7 pages, 1.5 spaces, 12 point font). These include central bank independence, whether central banks should be subject to more stringent rules regarding their monetary

conduct, transparency, as well as whether they should act as lender of last resort. You will write an extended essay on such topics, carefully reviewing both sides of any argument, and present your views on the matter, based on readings suggested by the instructor. You may complement it with outside readings of your own research.

Examples of topics for your extended essays:

1. *Do more independent central banks have more inflation stability?*
2. *Did U.S. monetary policy before 2007 (very low interest rates) contribute to the housing crisis?*
3. *As a policy response the most recent economic and financial crisis, was quantitative easing effective, bad, or simply necessary and unavoidable?*
4. *How useful is the Taylor Rule in guiding monetary policy conduct?*
5. *How much weight should central banks give to preventing asset price bubbles?*

Important: Students may come up with a topic or question of monetary policy on their own. If you choose to do this I recommend you talk to me ahead of time to discuss the matter.

D. Discussion Contributions: This class will have periodic in class discussions. The instructor will alert students ahead of time and will prepare a set of questions for discussion. Students should answer these questions ahead of class and be prepared to contribute to class discussions using this material.

****Policy on class absences:** A student absent from class during a discussion day will be graded with a “0” participation grade for that week. If a conflict is known ahead of time and communicated to the instructor more than 24 hours in advance that week's participation grade may be entered as “NA.”

E. Calculating your course grade. Your course grade will be a weighted average of the following components:

- Test 1 and Test 2, averaged (35%)
- Tale Home Final Exam (25%)
- Homework Assignments (15%)
- Extended essay on a selected research topic (20%)
- Discussion contributions and participation (5%)

V. GRADING SCALE

The following scale will apply in converting your numeric course grade to a letter grade: 93–100 (A), 90–92 (A–), 87–89 (B+), 83–86 (B), 80–82 (B–), 77–79 (C+), 73–76 (C), 70–72 (C–), 60–69 (D), and <60 (F).

VI. ATTENDANCE REQUIREMENTS AND WITHDRAWAL POLICY

Class attendance is very important in this class as the class does not follow a single textbook. The class material is based on many different articles and chapters from many different books.

The instructor is not responsible for dropping enrolled students. Should you decide later on to drop or withdraw please do so within the university-set deadlines.

VII. STATEMENT OF STUDENT CONDUCT

Students are advised to consult the *Student Conduct Code* and the *Standards for Academic Conduct* sub-sections of the Ithaca College *Student Handbook*.

In particular, please note the following policies:

A. **Academic conduct, cheating, plagiarism:** All forms of academic dishonesty will be taken very seriously. All such behavior will be reported to the dean and can have serious consequences. If you are not sure what constitutes academic dishonesty, refer to the *Standards for Academic Conduct* section (section 7.1.4) of the Ithaca College *Student Handbook*.

B. **Tardiness.** Students who come late are asked to enter the classroom in the least disruptive manner possible. This includes taking a seat as near the door as possible if you arrive late.

C. **Cellphones & other technology:** Cellphones should be turned off or kept on vibrate mode while class is in session. *Laptops are strictly forbidden unless they are used for note-taking purposes.*

VII. SPECIAL ACCOMMODATIONS

This class follows Ithaca College policy to accommodate students with special needs. Once provided with supporting documentation from the Student Accessibility Services (SAS), the instructor will gladly provide accommodations. *Students are responsible for filling-out any paper work necessary to receive accommodations.*

IX. DISCLAIMER

Topics and information in this syllabus is subject to change. Students will be notified ahead of time if and when any changes are made to the topics. Exam dates are fixed.

X. SCHEDULE AND TOPICS TO BE COVERED

Week	Date	Topic and Readings
I. INTRODUCTION AND FOUNDATIONS		
1-4	Jan 26 - Feb 18	<ul style="list-style-type: none"> Brief Macroeconomic History of the United States. The Institutional Features of the Federal Reserve System The Federal Reserve's Balance Sheet and the conventional instruments and tools of monetary policy. The Market for Bank Reserves and Monetary Targeting. Monetary policy and the Term Structure of Interest Rates.
II. MONETARY THEORY		
5-7	Feb 22- March 10	<p>Exchange Rate Policy and Monetary Policy</p> <ul style="list-style-type: none"> Cecchetti and Schoenholtz, Ch. 19 <p>Money Demand, Quantity Theory of Money, and Velocity of Money</p> <ul style="list-style-type: none"> Cecchetti and Schoenholtz, Ch. 20 <p>The Dynamic AD-AS Model and Monetary Theory Policy, including Monetary Policy at the Zero Lower-Bound</p> <ul style="list-style-type: none"> Cecchetti and Schoenholtz, Ch. 21 and 23 Mishkin, Ch. 23

8	March 15-17	NO CLASS - SPRING BREAK
9	March 22 & 24	Monetary Policy Transmission Mechanisms <ul style="list-style-type: none"> • Cecchetti and Schoenholtz, Ch. 23 • Kuttner and Mosser (2002)
10	March 29 & 31	Test 2 (March 29) The time-inconsistency problem and the rules versus discretion debate <ul style="list-style-type: none"> • Mishkin, Ch. 24 • Van Leer (2002) Using the Federal Funds Futures to Predict the Target Federal Funds Rate <ul style="list-style-type: none"> • Kessler and Goff (2007) • http://www.frbsf.org/education/publications/doctor-econ/2003/march/interest-rate-forecasts
III. CENTRAL BANKING ISSUES: EVOLVING “BEST PRACTICES” IN MONETARY POLICY AND STRATEGY		
11	April 5 & 7	Inflation Targeting <ul style="list-style-type: none"> • Bernanke (2003) • Samarina and de Haan (2014)
12	April 12 & 14	Central Bank Independence and Macroeconomic Performance <ul style="list-style-type: none"> • Pollard (1999) • Cukierman (2008) • Bodea and Hicks (2015) • Fischer (2015)
13	April 19	Political Business Cycles in Monetary Policy <ul style="list-style-type: none"> • Abrams (2006)
IV. MONETARY POLICY BEFORE AND AFTER THE GLOBAL FINANCIAL CRISIS OF 2007-2009		
13	April 21	Did the U.S. Monetary Policy contribute to the 2007 financial crisis? <ul style="list-style-type: none"> • Bernanke (2010) • Taylor (2007) • McDonald and Stokes (2013)
14	April 26 & 28	Did the U.S. Monetary Policy contribute to the 2007 financial crisis? (CONTINUED) <ul style="list-style-type: none"> • Miles (2014) Unconventional Monetary Policy during the 2007-09 Financial Crisis <ul style="list-style-type: none"> • Cecchetti (2009) • Amstand and Martin (2011)

15	May 3 & 5	The Effects of the Fed's Unconventional Monetary Policy <ul style="list-style-type: none"> • Mamun et al. (2010) • Gagnon et al. (2010) Monetary Policy and Income Inequality: Evidence from unconventional policies. <ul style="list-style-type: none"> • Domanski et al. (2016)
16	May 12	FINAL EXAM (Take Home, due May 12 at midnight)