

Fall 2006
Classroom: KUY 301
TR 3:00-4:15 pm

Prof. Xiaojun Wang (xiaojun@)
Office: Saunders 527 (956-7721)
Office Hours: TR 10:30-11:30 am

Econ 440: MONETARY THEORY AND POLICY

Overview

This course focuses on monetary and macroeconomic theory and policy. Students will analyze clear, explicit, and internally consistent models of the monetary economy, and develop critical thinking skills as applied to monetary economics. This allows students to explore the linkage between assumptions underlying the models and the behavior of these model economies. The lessons from these model economies are used to evaluate government priorities and policies. Specifically, we develop the micro-foundations of monetary economics using the basic *overlapping generations model*. This model will then be modified throughout the course to address policy questions such as: the cause and costs of inflation; what is the optimal international monetary system; should trading partners adopt a single currency; why are banks special and did the U.S. experience a credit crunch in 1990; did the S&L crisis play a role in the "credit crunch" of the 1990s; could the central bank offset a credit crunch; and what is the optimal monetary policy.

Prerequisites

Intermediate Economics: Macroeconomic Analysis or Microeconomic Analysis

Required Text

Champ, Bruce, and Scott Freeman. (2001) *Modeling Monetary Economies*, 2nd ed., John Wiley & Sons.

Various Journal Articles

Examinations

Pop quizzes will be given regularly throughout the semester.

The **Midterm exam** will be given on Thursday Oct. 12.

The **Final exam** is comprehensive and will be given on Thursday Dec. 14, 2:15-4:15 PM.

Weighting of Course Grade

Pop Quizzes	20%
Midterm	40%
Final	40%

Policies

- No +/- will be used in grading.
- Attendance is mandatory; no make up quizzes will be given.
- There will be no make up exams. Only medical emergencies are valid reasons for missing exams.

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- Exams must be taken on the assigned dates. Please note the dates listed above for both the midterm and the final.
- All of the assigned readings will not be covered in detail in class. You are responsible for all of the material in these readings. Assigned readings for each class meeting should be read prior to class and then carefully reviewed after class.
- Class will be conducted in an open discussion/lecture style. Your participation is expected, and I will frequently call on students to discuss important topics.
- I will always be available to you during my office hours and by appointment. I encourage you to make use of my time. Please do not wait until the day of an exam to ask for my assistance.

REQUIRED READINGS

All chapter appendices are required unless I tell you otherwise. I will assign additional readings to accompany most chapters. Although some of these readings will not be covered in class, they are all required reading. In addition, any class handouts are required reading, don't miss class.

Part One: Money--The Basic Overlapping Generations Model

Chapter 1. A Simple Model of Money

Centralized Versus Competitive Solutions (or budget sets vs. feasible allocations)
The Golden Rule
Growing Population

Additional Readings

[Private Money: Everything Old is New Again](#) by Barbara A. Good, Federal Reserve Bank of Cleveland *Economic Commentary*, April 1, 1998

Chapter 2. Barter and Commodity Money Exchange

The Inefficiency of Barter
The Inefficiency of Commodity Money

Chapter 3. Inflation

A Growing Money Supply
Seigniorage

Additional Readings

Aiyagari, Rao S., "Deflating the Case for Zero Inflation," [Federal Reserve Bank of Minneapolis Quarterly Review](#) Vol. 14 (Summer), 1990, 2-11.

Sniderman, Mark S., "Inflation Targets: The Next Step for Monetary Policy," [Federal Reserve Bank of Cleveland Economic Commentary](#), August 1, 1996.

Chapter 4. International Monetary Systems

International Exchange
Fixed vs. Flexible Exchange Rates
Optimal International Monetary Systems

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Additional Readings

[A Hitchhiker's Guide to Understanding Exchange Rates](#), by Owen F. Humpage, Federal Reserve Bank of Cleveland *Economic Commentary*, January 1, 1998.

Rolnick, Arthur J. and Warren E. Weber, "A Case for Fixing Exchange Rates," [Federal Reserve Bank of Minneapolis 1989 Annual Report](#), 1989, 3-14.

Wallace, Neil, "Why Markets in Foreign Exchange Are Different from Other Markets," [Federal Reserve Bank of Minneapolis Quarterly Review](#) (Fall), 1979, 1-7.

Part Two: Banking--Debt, Financial Intermediation, Monetary Policy and the Money Output Connection

Chapter 6. Capital

Money and Capital
Arbitrage - the equality of risk adjusted returns
Money, Capital, and Private Debt

Chapter 7. Liquidity and Financial Intermediation

The Fisher Equation and Expected Inflation
Arbitrage and Banking
Bank Monitoring and Intermediation

Chapter 8. Central Banking and the Money Supply

Reserve Requirements
Open Market Operations
Interest on Money

Chapter 9. Money Stock Fluctuations

The Money Output Connection
Inside vs Outside Money
Monetary Aggregates
Expected Inflation and Output

Additional Readings

Humpage, Owen F., "[Monetary Policy and Real Economic Growth](#)" Federal Reserve Bank of Cleveland *Economic Commentary*, December 1996

If you feel you need reasonable accommodations because of the impact of a disability, please 1) contact the KOKUA Program (V/T) at 956-7511 or 956-7612 in room 013 of the QLCSS; 2) speak with me privately to discuss your specific needs. I will be happy to work with you and the KOKUA Program to meet your access needs related to your documented disability.