ECON 440  Monetary Theory and Policy

Instructor: Raburn (Mac) Williams

The first 35 percent of the course will develop a macroeconomic model that emphasizes the role of money in determining output and prices and discusses the factors that affect the supply and demand for money. The rest of the course will use this model to analyze Federal Reserve monetary policy.

Your course grade will be based on two mid-terms and a final. You should also keep up with current economic conditions and federal reserve monetary policy. Each lecture will open with a short discussion of the day’s financial news and monetary developments.

Some helpful websites:
realclearmarkets.com
barrons.com
bloomberg.com
ntrs.com  (Daily Global Commentary)
stlouisfed.org  (U.S. Financial Data)

Course Outline

I. The Role of Money in Macroeconomic Models: monetary disequilibrium and the circular flow of income and expenditure; saving, investment and the “natural rate of interest”; Wicksellian cumulative inflation; the accelerationist Phillips curve; government finance and the creation of money; the foreign exchange market and the macroeconomics of an open economy; fixed and flexible exchange rate regimes.

II. Factors Determining the Supply and Demand for Money: the gold standard; the discount rate; open market operations and the “scissors effect”; the cost of holding money; the money supply multiplier model; implementing monetary policy using federal funds rate targets; quantitative easing.

III. Federal Reserve Monetary Policy.
   A. World War I and the Great Inflation of 1919
   B. The Twenties Boom (or Bubble)
C. The Great Depression 1929-1933  
D. Roosevelt’s Depression 1937-1938  
E. World War II and the Federal Reserve’s Pegging of Government Bond Prices  
F. The Korean War and the Treasury-Federal Reserve Accord  
G. The Eisenhower Years  
H. The Kennedy - Johnson Years  
   (i) Monetary Policy and the 1964 Tax Cut  
   (ii) Financing the War in Vietnam and Financial Disintermediation  
I. Nixon and the Breakup of the Bretton Woods System  
J. Nixon’s Wage and Price Controls  
K. The Energy Crisis and the Federal Reserve’s Delimma  
L. Reaganomics and the Plaza Agreement  
M. The Louvre Accord and the 1987 Stock Market Crash  
N. The Bush Stagnation and the Savings and Loan Bailout  
O. The Market and Housing Bubbles  
P. The Great Panic and the Current Financial Crisis

There is no required textbook. Recommended readings will be placed on reserve at the library. Suggested background readings include:

Ahamed. Lords of Finance  
Barro. Macroeconomics: A Modern Approach  
Eichengreen. Golden Fetters  
Friedman and Schwartz. A Monetary History of the United States  
Fry and Williams. American Money and Banking  
Wessel. In Fed We Trust  
Williams. The Politics of Boom and Bust in Twentieth-Century America  
Wolf. Fixing Global Finance