Econ 440 Monetary Theory and Policy
Liang Wang

Lectures: Monday and Wednesday 3:00-4:15 p.m., BUSAD D203
Office Hours: Monday and Wednesday 1:30-2:30 p.m.
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Course Description
This course focuses on monetary and macroeconomic theory and policy. An overlapping-generations model of the monetary economy is first introduced as the theoretical framework for analyzing the origin of money, monetary exchange process, inflation, foreign exchange, capital, and financial intermediation. This course also covers institutional knowledge of banking, central banks, monetary policy, and international monetary system, and contemporary issues such as interest rate targeting vs. inflation rate targeting, quantitative easing, and financial crisis. The setup of the course allows students to explore the linkage between assumptions underlying the models and the behavior of these model economies, and apply the insights from the models to understand and evaluate government policies in real life.

Student Learning Outcomes
By the end of the semester, students are expected to understand the causes of inflation and its relation to output, the roles of commercial banks and central banks, and the functions and conduct of different monetary policy tools. Students will also master the analytical skills to use logically consistent models of the monetary economy to develop critical thinking as applied to monetary issues in real economy and form their own opinions on government policies.

Prerequisite
Intermediate Microeconomics (Econ301) or Intermediate Macroeconomics (Econ300)

Class Resources
The following course materials are available from the bookstore.

Required Readings
Besides textbook chapters, all chapter appendices are also required unless students are told otherwise. Additional readings may be assigned to accompany certain chapters. Class handouts, if there are any, are required reading. Although we will not have enough time to cover all the assigned readings in class, students are responsible for all the materials in those readings. Relevant text chapters or assigned readings for each class meeting should be read prior to class and then carefully reviewed after class.

Grading Schedule
Two methods are used to calculate the course grade. The method that gives you the higher letter grade will be automatically applied at the end of the semester. Method I is designed to reward students with consistent progress throughout the course, and Method II rewards those who show improvement over the semester. The plus/minus system will be used for assigning letter grades. I reserve the right to make any changes to class policy and schedule. You will be informed of any changes that occur.

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<thead>
<tr>
<th>Method I</th>
<th>Method II</th>
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<tr>
<td>Participation 5%</td>
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<tr>
<td>Homework 20%</td>
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<td>Midterm 35%</td>
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<td>Final Exam 40%</td>
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Homework
Multiple homework assignments will be given throughout the entire semester with specific deadlines. Homework submitted after the due day will not be accepted. While students are encouraged to study with each other, everyone is required to complete his/her homework individually.

Exams
There will be one midterm and one final exam for this class. You must bring a valid photo ID card to each exam. There will be no make-up exams for the midterm or the final, and both exams must be taken on the designated dates. The only valid reason to miss an exam will be a compelling medical emergency with documentations from your health care professional, in which case and only in this case a makeup exam will be given.

- The midterm exam will be given on TBA.
- The final exam will be given on December 14th, Monday 2:15 – 4:15 pm.¹

¹ The time and date of the final exam is subject to any changes based on the University Final Exam
**Attendance and Class Participation**
While attendance will not be taken in class, it is mandatory to attend lectures. If you miss any announcements, such as homework assignments, class administrative changes, etc., there is no recourse unless it is a medical emergency with documents from your health care professional. If you miss any class announcements due to tardiness or absence, you will be responsible for obtaining that information from a classmate.

Class will be conducted in an open discussion/lecture style. Students are expected to prepare in advance and participate actively in class discussions. Many course-related questions will be asked in class throughout the entire semester, and students are encouraged to actively answer those questions and provide their own opinions. Students can also participate by asking nontrivial course-relevant questions. Each student’s participations will be recorded. By the end of the semester, each student will be given a class participation score from one to five, based on the instructor’s evaluation of the student’s class participation throughout the entire semester.

**Academic Integrity**
Any form of cheating and plagiarism will be strictly prohibited. Failure to comply with University of Hawaii guidelines of academic integrity may result in a failing grade in the course and further action taken by the university. Please review carefully the following page on student conduct code. Do not attempt to test this guideline.

**Students with Disabilities**
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, and (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.

**Whom to Contact**
- Logistical issues regarding registration or withdrawal: contact the main office of the economics department. Visit Saunders Hall 524 or call (808) 956-8496 and seek help from one of the staffs.
- Logistical issues regarding the Laulima site go to:
  https://laulima.hawaii.edu/portal/help/main

Schedule posted online at http://manoa.hawaii.edu/undergrad/schedule/final-exams/fall/.
Course Schedule

Topics Discussed

Part I: Money
1. What is Money? Why Study Money, Banking, and Monetary Policy? Mis
chink Ch 1, 2
2. A Simple Model of Money Mishkin Ch 0; Champ, Freeman, and Haslag (CFH)
   Feasible allocations vs. decentralized solutions Ch 1
   The Golden rule
   Growing population
3. Barter and Commodity Money Exchange Mishkin Ch 0; CFH
   The inefficiency of barter Ch 2
   The inefficiency of commodity money
4. Inflation Mishkin Ch 0; CFH
   Growing money supply Ch 3
   Seigniorage
5. International Monetary Systems Mishkin Ch 0, 8, 9; CFH Ch 4
   Foreign exchange market
   Fixed vs. flexible exchange rates
   International financial system

Part II: Banking
6. Capital Mishkin Ch 0; CFH
   Money and capital Ch 6
   Arbitrage – the equality of risk adjusted returns
   Money, capital, and private debt
7. Liquidity and Financial Intermediation Mishkin Ch 0; CFH
   The Fisher equation and expected inflation Ch 7
   Arbitrage and banking
   Bank monitoring and intermediation
8. Financial Crises and the Subprime Meltdown Mishkin Ch 3

Part III: Central Banking and Monetary Policy
9. Central Banks and the Money Supply Mishkin Ch 4, 5,
   Reserve requirements CFH Ch 8
   Definitions of money and the money supply process
   The federal reserve system
10. Monetary Policy Mishkin Ch 6, 7,
    Open market operations CFH Ch 9
    The conduct of monetary policy
    The correlation between money and output