Course Syllabus

Monetary Economics (440.610)
Masters in Applied Economics Program
Johns Hopkins University

Spring Semester, 2014
Dr. Sang-Sub Lee
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Saturday 10:00 ñ 12:45

1. General Course Objective:

This course is designed as a survey of the basic theories in monetary economics for master level students. The main objective of the course is to help students understand the core aspects of monetary economy: how monetary phenomena and policies are determined, and how they interact with the rest of the macro economy. For that purpose, several key theoretical frameworks will be constructed, and various monetary economic phenomena including monetary policy actions will be analyzed within such frameworks.

Among the topics to be covered include: money demand and money supply, inflation and optimal quantity of money, monetary policy transmission mechanism, the term structure of interest rates, strategy of monetary policy and optimal monetary policy, time inconsistency problem in monetary policy, monetary policy targets and rules, and non-conventional monetary policies. We will also examine the recent financial crisis, the FED's policy reaction to the crisis, and the challenges facing monetary authority ahead. For each topic covered, a core body of theories, issues, and evidence will be presented and discussed.

2. Readings:

2-A) Textbook Sources:


2-B) Other References of Interest:


2-C) Articles:

Numerous articles from the FRB publications, academic journals, and financial newspapers and magazines such as *WSJ* and *Economist* will also be used and posted.

3. Exams and Other Assignments:

There will be one mid-term (30%), final (40%), term paper (30%), and occasional homework (10%).

4. Tentative Course Outline (The detailed reading list could change somewhat.)

(*: Optional Reading)

1. Introduction and Overview

Readings:

Walsh: Introduction and Chapter 1

Bernanke, Ben, 2010, On the Implications of the Financial Crisis for Economics, speech delivered at Conference co-sponsored by the Bendheim Center for Finance and the Center for Economic Policy Studies, Princeton, New Jersey


January 3, 2014

II. Money in the Long Run and General Equilibrium Models of Monetary Economy

A. Review of Solow Growth Model and Tobin’s Monetary Growth Model

B. Sidrauski’s Monetary Growth Model (Money-in-the-Utility Function Model) and Other Extensions

Readings:

Walsh: Chapter 2: Skip pp44-46 on existence and skim through 2.5 and Appendix) Chapter 3: Skim through 3.1-3.3, and skip the rest)


Mehra, Rajnish and Edward Prescott, 2008, The Equity Premium: ABCs, Chapter 1 in Handbook of the Equity Premium


C. Money and Public Finance

Readings:

Walsh: Chapter 4: Read 4.1-4.5 (pp146-152; Cagan's model, pp156-159; and 4.5 can be skimmed through), 4.6.1-4.6.2, 4.6-4.7

Other Readings


Bernanke, Ben, 2009, Federal Reserve Policies to Ease Credit and Their Implications for the Fed's Balance Sheet, Speech delivered at the National Press Club Luncheon, National Press Club, Washington, D.C.

http://www.federalreserve.gov/monetarypolicy/bst_fedsbalancesheet.htm


Greenlaw, David, James Hamilton, Peter Hooper, and Frederick Mishkin, 2013, Fiscal Policy and the Role of Monetary Policy

Roberto M. Billi and George A. Kahn, What is the Optimal Inflation Rate?, Economic Review, FRB of Kansas City

**Mid-Term I: Tentatively Scheduled on 03/08/2014**

**No Class on March 22 (Spring Break)**

**III. Money in the Short Run: Short Run Models and Monetary Policy Transmission Mechanism**

* A. *Static AD-AS Model and the Phillips Curve*

* B. *Rational Expectations and Stochastic Static AD-AS model with Rational Expectations*

* C. *Extension of the Basic Rational Expectations AD-AS Model: Persistent Effects of Monetary Policy on Output and Price*

* D. *New Keynesian Synthesis*

*Combined Readings for A, B, C, and D:*

Walsh, Chapter 5-6, Chapter 1, Chapter 10.1-10.2.

Chapter 5 (Skim 5.3; While reading 6, don’t pay too much attention to the detailed model specifications and derivations
Chapter 1 (1.2.2, 1.3)

Auerbach, Alan, William Gale, and Benjamin Harris, 2010, Activist Fiscal Policy, Journal of Economic Perspectives, Vol 24, No.4

Bernanke, Benjamin (2003), *Remarks at the Federal Reserve Bank of Dallas Conference on the Legacy of Milton and Rose Friedman’s Free to Choose*, Dallas, Texas

____________(2004), *The Great Moderation*

Ball, Laurence, and Gregory Mankiw (2002), *The NAIRU in Theory and Practice*, NBER WP #8940

Mankiw, N.G. (2000), *The Inexorable and Mysterious Tradeoff Between Inflation and Unemployment*, NBER WP #7884

Mankiw, N.G. (2006), *The Macroeconomist as Scientist and Engineer*, NBER WP #12349

Fuhrer, Jeffrey, 2009, Inflation Persistence, FRB of Boston, Handbook of Monetary Economics*


Gali, Jordi, and Mark Gertler, 2007, *MACROECONOMIC MODELING FOR MONETARY POLICY EVALUATION*, NBER WP 13542 (JEP)

**D. Monetary Policy Transmission Mechanism and Credit Channel of Monetary Policy**

Walsh, Chapter 10.5 (Skip 10.5.5 and Skim over 10.5.3, 10.5.4)

Bernanke, Ben, (2007), *The Financial Accelerator and the Credit Channel*, Speech made at the Credit Channel of Monetary Policy in the Twenty-first Century Conference, Federal Reserve Board

______, and Mark Gertler (1995), *Inside the Black Box: The Credit Channel of Monetary Policy Transmission*, NBER WP #5146


Markus K., Brunnermeier, Thomas M. Eisenbach, and Yuliy Sannikov, 2012, Macroeconomics with Financial Friction: A Survey


Kilian, Lutz, 2012, Structural VAR

Adrian, Tobias and Hyun Song Shin, 2010, Financial Intermediaries and Monetary Policy, Handbook of Monetary Economics

IV. Topics in Monetary Policy

a) Monetary Policy Operating Procedures, Policy Instrument Choice, Policy Tools at ZLB

Readings:

Walsh: Chapter 11

Bernanke, Ben, S. (2005), Implementing Monetary Policy, FRB, March 30, 2005

Bernanke, Ben, S. (2004), The Logic of Monetary Policy, FRB, December 2, 2004

Bernanke, Ben, 2002, Deflation: Making Sure It Doesn’t Happen Here, Remarks Before the National Economists’ Club


Keister, Todd, Antoine Martin, and James McAndrews (2008), Divorcing Money from Monetary Policy, Federal Reserve Bank of New York

Bernanke, Ben, Vincent Reinhart, and Brian Sack, Monetary Policy Alternatives at the Zero Bound: An Empirical Assessment, Brooking Papers on Economic Activities

Eggsertsson, Gauti and Michael Woodford, The Zero Bound on Interest Rates and Optimal Monetary Policy, Brooking Papers on Economic Activities

Woodford, Michael, 2012, Methods of Policy Accommodation at Interest Rate Lower Bound, Jackson Hole Symposium

Curdia, Vasco, and Michael Woodford, 2009, Conventional and Unconventional Monetary Policy


**b) Interest Rates and Monetary Policy: The Term Structure of Interest Rates**

*Readings:*

Walsh: 10.3

Bernanke, Ben, (2005), *The Global Saving Glut and the U.S. Current Account Deficit.*, Federal Reserve Bank of St. Louis. April 14; Federal Reserve Bank of St. Louis Review


Fisher, Mark (2001) *Forces that Shape Yield Curve Parts 1 and 2*, FRB of Atlanta


Dâmico, Steffania, and Thomas King, 2010, Flow and Stock Effects of Large-Scale Treasury Purchases, BOG

c) Rules versus Discretion: Time Inconsistency Problem

Readings:

Walsh: Chapter 7*

Bernanke, Ben (2004), Panel Discussion: What have we learned since October 1979


Alesina, Alberto, and Andrea Stella, 2010, The Politics of Monetary Policy, in Handbook of Monetary Policy

d) Optimal Monetary Policy Rules

Readings

Walsh: Chapter 8

Bernanke, Ben and Frederic Mishkin (1997), Inflation Targeting: A New Framework for Monetary Policy, NBER WP #5893

Bernanke, Ben (2003), Constrained Discretion and Monetary Policy, FRB, Remarks before the Money Marketeers of New York University, Feb 2003


Taylor, John, and John Williams, 2010, *Simple and Robust Rules for Monetary Policy*, NBER WP 15908


Svensson, Lars, 2010, Inflation Targetting, Handbook of Monetary Economics*

**e) Financial Crisis and Monetary Policy**

Adrian, Tobias and Hyun Song Shin (2008), *Financial Intermediaries, Financial Stability and Monetary Policy*

Bernanke, Ben (2009), *Reflections on a Year of Crisis*, Remarks made at the FRB of Kansas City’s Annual Economic Symposium, Jackson Hole, Wyoming

Brunnermeier, Marcus (2009), *Deciphering the 2007-2008 Liquidity and Credit Crunch*, Journal of Economic Perspectives


Pozsar, Zoltan, Tobias Adrian, Adam Ashcraft, and Hayley Boesky, 2010, *Shadow Banking*, Federal Reserve Bank of New York Staff Reports #458

Hanson, Samuel G., Anil K Kashyap, and Jeremy C. Stein, 2011 A Macro Prudential Approach to Financial Regulation, JEP

**f) Monetary policy, Asset prices, and Financial Market.**


*Asset Price Bubbles and Monetary Policy*, ECB 2005

Frederic S. Mishkin (2008), *How Should We Respond to Asset Price Bubbles*, Federal Reserve Board


**VI. Epilogue**
**Term Projects (30%)**

Write a term paper on a monetary topic of choice, and presents to the class at the end of the semester

Paper should include some literature review, theoretical basis, and empirical evidence from own data analysis

02/08/2014: (preliminary) Selection of Topic
02/22/2014: Abstract submission
03/29/02014: Mid-point check
05//03/2014: Presentation

**Sample Topics:**

Financial Crisis and the Monetary Policy Responses

Term Structure of Interest Rates

Inflation dynamics and forecasting

Monetary Policy and Asset Prices

(Structural) VAR and Monetary Policy Transmission Mechanism

Effects of Large Asset Purchase