Course Syllabus

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

Spring Semester, 2017
Dr. Sang-Sub Lee
(slee193@jhu.edu)

Thursday 6:00 – 08:45

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. 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: neutrality and super-neutrality of money, money demand and money supply, consumption CAPM and equity premium puzzle, inflation and optimal inflation rate, public finance and inflation, new Keynesian Phillips curve, monetary policy transmission mechanisms, 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, monetary policy at ZLB and non-conventional monetary policies.

2. Readings:

2-A) Textbook Sources:

Walsh, Carl, Monetary Theory and Policy, 3rd edition, MIT Press, 2010


2-B) Other References of Interest:


2-C) Articles:

Numerous articles from the FRB publications and academic journals will also be used and posted.

2-D) Other Requirements:

Matlab and Dynare (Detailed Instruction will come later)

3. Exams and Other Assignments:

There will be one mid-term (30%), final (30%), term paper (25%), and occasional homework (15%). The final exam will be a take-home exam.

4. Office Hours: Will announce each week (mostly Tuesday evening or by Appointment)

5. Other Announcement: Please check your email before coming to class for any change in class schedule due to an unexpected event.

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

(*: Optional Reading)

I. Introduction and Overview

Readings: (Read casually. Don’t worry if you are not sure of anything)

Walsh: Introduction and Chapter 1

Blanchard, Olivier, Giovanni Dell'Ariccia, and Paolo Mauro, Rethinking Macroeconomic Policy I and II, IMF
Yellen, Janet, Macroeconomic Research after the Crisis, October 14 2016

Fischer, Stanley, Why are interest rates low? Causes and Implications. October 17, 2016,


Gali, Chapter 1*.

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 (Introduce some key concepts and notation for the next section. Otherwise, not very import.)

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

Gali, Chapter 2*.


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 skinned through), 4.6.1-4.6.2, 4.6-4.7

Other Readings


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


**Mid-Term I: Tentatively Scheduled on 02/23/2017 or 03/02 /2017**

**No Class on March 23 (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:*

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

Ball, Laurence, and Gregory Mankiw (2002), *The NAIRU in Theory and Practice*, NBER WP #8940
Mankiw, N.G. (2006), *The Macroeconomist as Scientist and Engineer*, NBER WP #12349

Walsh, Chapter 5-6, Chapter 1, Chapter 10.1-10.2. (Skip 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)

Gali, Chapter 3*

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


**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)

Freixas and Rochet, Chapter 4-6*.


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

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

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

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


Kilian, Lutz, 2012, Structural VAR*

IV. Topics in Monetary Policy

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

Readings:

Walsh: Chapter 11

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

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


Ihrig, Jane, Ellen Meade, and Gretchen Weinbach, 2015, Monetary Policy 101: A Primer on the Fed’s Changing Approach to Policy Implementation, BOG.

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


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

_________ and ___________, 2010, The Central-Bank Balance Sheet as an Instrument of Monetary Policy, NBER WP#16208*

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

Readings:
c) Rules versus Discretion: Time Inconsistency Problem

Readings:

Walsh: Chapter 7

Gali, Chapter 4*.


d) Optimal Monetary Policy and Policy Rules

Readings

Walsh: Chapter 8

Gali, Chapter 4*

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


e) *Great Recession, Financial Stability, and Monetary Policy*

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


**Term Projects (25%)**

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.

- 01/26/2017: (preliminary) Selection of Topic
- 02/02/2017: A Brief abstract submission
- 03/02/2017: Mid-point check
- 04/27/2017: 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
- Monetary Policy Rule (or Reaction Function), Taylor Rule