

Syllabus for Economics 111: Monetary Economics

Winter 2014; Center Hall, Room 119; Tu-Th, 2:00 – 3:20PM

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Office Hours: Tu-Th 11:30AM- 1PM

Prerequisites: Math 10A or 20A; Econ 1A, 1B or Econ 3. Based on experience, I have found that students with only introductory economics as background (typically sophomores) tend to struggle a lot relative to students who have taken, or are taking, the Econ 110 series. Thus, *I strongly recommend* that the former talk to me or to the TAs well before the exams so that we can monitor your progress and make suggestions.

Course Overview

A major focus of this course is for you to learn about the goals, formulation, and macroeconomic impact of monetary policy and, in the process, improve your analytic skills. Having been an economist my entire career at the Federal Reserve Board, I will attempt to provide an insider's perspective. Actual policy is based both on theoretical relationships and on the evaluation of data and statistical relationships; as a result, this course will contain both theoretical and empirical elements. The course also will consider the relationship among asset prices, interest rates, and the economy, with special attention paid to the risk and term structure of interest rates; these issues are important to an understanding of monetary policy and are of independent interest as well. Traditional topics related to money itself also will be discussed. Further, the course will give a detailed overview of financial crises and, in particular, will provide an extensive description and analysis of the housing/financial market turmoil of 2006-2013.

Lecture Notes, Textbook, and Other Reading

1. Detailed lecture notes are available on the course web page. Also, please check the class web page frequently for messages about exams, homework, etc. **Required**
2. Stephen Cecchetti and Kermit Schoenholtz, *Money, Banking, and Financial Markets*, 3rd edition, 2011. This book has excellent coverage and intuitive discussions, with a contemporary treatment of monetary policy. The book is a little short on rigor, which will be provided in class. **Highly Recommended.**
3. The Federal Reserve Bank of San Francisco presents an excellent overview of the financial crisis: <http://www.frbsf.org/econanswers/portal.htm>. **Recommended.**
4. Speeches of Federal Reserve Board Governors are a great source of information on how things work at the Fed, on the state of the economy, and on various analytical issues. The web site for speeches is given below. **Recommended.**

Useful Web sites

www.federalreserve.gov/releases/ this contains downloadable economic data
www.federalreserve.gov/monetarypolicy/fomc.htm this contains FOMC statements, etc.
www.federalreserve.gov/newsevents/speech/2013speech.htm this contains speeches of the Fed Chairmen and Governors for more than a decade

Course Grade: I plan to give one mini-midterm (at the end of the first module, probably during the fourth week of class), one regular midterm, and a final exam. Their contribution to your final grade is as follows:

Mini-Midterm	10%
Midterm	25%
Final	65%

The final exam will be comprehensive. Performance on homework and in class potentially can help students whose exam scores place them just below a cut line for a particular grade (e.g., a C+ based solely on exam scores could turn into a B- grade.), although this is a fairly rare event. Final course grades will be curved.

Reading Assignments

You are required to read the course lecture notes. Although there are only about 50 pages of notes, they contain a lot of information and analysis. If you understand everything in these notes, you will do very well in the course. However, for many students, supplementary reading in the textbook by Cecchetti and Schoenholtz will be necessary. Reading all the chapters recommended below would take a lot of time, so you should be selective, reading only material in the textbook that you find confusing or incomplete in the lecture notes and in the class lectures. I strongly recommend that everyone at least read Chapters 1 – 3 in Cecchetti immediately because the material will help you get quickly grounded—but there is no need to memorize the material because we will cover the important pieces in class and in the lecture notes.

Weeks 1 - 3: module 1 of lecture notes and Chapters 1, 2, 3 in Cecchetti

Weeks 4 – 6: module 2 of lecture notes; Chapters 21, 22, 23 in Cecchetti; also Chapter 10 (pages 231-235 only) in Cecchetti

Weeks 7 – 8: module 3 of lecture notes; Chapters 4, 5, 6, 7 in Cecchetti

Weeks 9 - 10: module 4 of lecture notes; Chapter 20 (pages 516-526) in Cecchetti; also Chapters 15 and 18 in Cecchetti