Economics 5415 – Topics in Monetary Economics

Lakehead University

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Course Objectives

Academic thinking about monetary economics has changed drastically over the past decade and so has the practice of monetary policy. Almost simultaneously, big advances were made in the management of monetary policy on the one hand and in theoretical and empirical research on monetary policy on the other hand. This course will concentrate on the construction of a macroeconomic model --- the dynamic general equilibrium monetary model --- that can be used to evaluate monetary policy. The objective is to provide a detailed introduction to the state-of-the-art research in monetary economics that have been labeled “The New Neoclassical Synthesis.” The new synthesis involves the systematic application of intertemporal optimization and rational expectations to various decisions made by economic agents in order to combine ideas of Keynesian and Classical economics. Moreover, it also embodies the insights of Monetarists regarding the theory and practice of monetary policy. Hopefully, the course will not only enhance students’ understanding of the role of monetary policy in the functioning of the economy but also prepare them for graduate (PhD) work and the job interviews at places like Bank of Canada and Department of Finance.

Lecture Times and Location

Mondays and Wednesdays: 10:00am --- 11:30am in RC-3014

Office Hours

Mondays and Wednesdays: 2:30pm --- 4:00pm. If these times are inconvenient and/or if you need additional times please do not hesitate to make appointments.

Evaluation

Mid-term exam: October 22nd, 2003 --- 25% of the grade.
Assignments: At least two problem sets will be distributed. --- 20% of the grade.
Presentation: last week of November --- 15% of the grade. (Details will be discussed in class)
Research paper: Due Dec. 1st --- 40% of the grade. (Details will be discussed in class)
**Text and Other Readings**

**A)- Required Text**


**B)- Other Books**


**C)- Survey Articles**


D)- Useful websites

Michael Woodford’s homepage, http://www.princeton.edu/~woodford/

Lars Svensson’s webpage, http://www.princeton.edu/~svensson

McCallum’s webpage, http://wpweb2k.gsia.cmu.edu/faculty/mccallum/mccallum.html

Fabio Ghironi’s syllabus, http://www2.bc.edu/~ghironi/moneysyll.html


Monetary Economics, http://www.few.eur.nl/few/people/smant/m-economics/index.htm

Lecture Topics

A) Introduction

1) Some stylized facts about money, prices and output.
2) A brief survey of empirical studies of the effect of money on output.
3) The VAR approach.

- Lecture notes.
- Walsh (2003), chapter 1

B) Monetary Policy --- General Issues

1) Monetary Policy Transmission
2) Conduct of monetary policy: tools, goals and targets.

- Lecture notes and handouts.
- Walsh (2003), parts of chapter 9.

C) Money in Macroe Models I: Simple Models with Rational Expectations

1) The basic IS-LM/ AD-AS model
2) Extending the basic model to incorporate rational expectations.
3) Solving rational expectations models --- method of undetermined coefficients.
4) Further implications of rational expectations --- discretionary policy and time inconsistency

- Lecture notes.
- Scarth (1996), chapter 5 and parts of chapter 6.
- Walsh (2003), chapter 8.


D)- Money in Macro Models II: New Models – An Introduction

1)- Dynamic general equilibrium monetary model --- money-in-the-utility function (MIU) --- basic framework.
2)- Dynamics in an MIU model.
3)- The linear approximation.
   - Walsh (2003), chapter 2.

E)- A New Keynesian Model for Monetary Analysis

1)- Imperfect competition and price stickiness.
2)- Endogenous persistence --- some extensions.
   - Walsh (2003), chapter 5.

F)- Money and the Open Economy

1)- A New Keynesian open-economy model.
2)- Some Extensions.
   - Walsh (2003), chapter 6.


G) Policy Analysis in New Keynesian Models

1)- Optimal monetary policy
2)- Targeting regimes --- inflation, price level, and nominal GDP targeting.
3)- Interest-rate rules.

- Walsh (2003), chapter 11.


H)- The Credit Channel of Monetary Policy

1)- Imperfect information in credit markets.
2)- A New Keynesian model with credit channel.

- Walsh (2003), chapter 7.

