

# Monetary Economics Syllabus

## Fall 2015/Winter 2016

4th Year BSc. Course,  
ICEF, National Research University Higher School of Economics

### 1 Course info

- Monetary Economics Fall term 2015 and 1st half of Winter Term 2016 is taught by M. Udara Peiris, Ph.D., Associate Professor at ICEF. e-mail: upeiris@hse.ru - Office: 3428 Shabolovka 26 Website: [www.udarapeiris.org](http://www.udarapeiris.org).
- 2nd half of Monetary Economics Winter term 2016 is taught by Vladimir Sokolov, Ph.D., Assistant Professor at ICEF. e-mail [vskolov@hse.ru](mailto:vskolov@hse.ru): - Office: 3420 Shabolovka 26. Website: <http://www.hse.ru/staff/vsokolov>
- Monetary Economics Classes for Fall and Winter terms are taught by
  - Alexey Ostapchuk. e-mail: [alexey.ostapchuk@gmail.com](mailto:alexey.ostapchuk@gmail.com)
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### 2 Office Hours

1. **M. Udara Peiris:** For inquires you may find me at my office (3428) during normal working hours. Please arrange an appointment with me through email. I am very happy to answer any questions about material from lectures or classes but would prefer to answer questions during office hours rather than by email. Prior to attending the office hours please have prepared specific questions, and send a short description of the questions to be asked by email beforehand so I can prepare. It is advisable to discuss such questions among classmates beforehand, and if it is a common question, to attend the office hours jointly. Answers to common questions may be posted online or discussed in lectures.
2. **Vladimir Sokolov:** In case you have questions regarding the materials taught please do not hesitate to ask me via email, if your questions could be explained in few sentences. For longer inquires, please stop by my office 3420 during my regular working ours.
3. **Alexey Mikhailov and Alexy Ostapchuk:** We will be glad to answer your questions regarding the course material during office hours (time and room will be set in September). To make communication more efficient, please email us your questions 1-2 days before the office hours and prepare notes and solutions for the problems of interest.

### 3 Course Webpage

The instructor will keep the course page in [mief.hse.ru](http://mief.hse.ru) up-to-date. Announcements, lecture material, homework assignments, handouts, the course calendar and other useful material for the course will be posted there. Students are responsible to check the webpage regularly. Be advised that the website will be the most accurate information source for the class and the schedule. If there is any doubt, please email the corresponding lecturer.

## 4 Course Description

Monetary Economics is a two-semester course designed for the fourth-year students studying *Economics*, and an optional course for those in *Economics and Finance* and *Banking and Finance*. It is one of the core courses taught to the fourth-year students at the ICEF. The content of the corresponding University of London course will be covered entirely, but will constitute approximately 70% of the material of the ICEF course.

The course focuses on the issues of monetary policy implementation in a closed economy contexts. The Fall semester covers topics of money creation and monetary transmission mechanisms, inflation and expectations, neutrality of money and introduces the Real Business Cycle Model. The first half of the winter term will cover the classical and Keynesian approaches to the monetary policy and discusses their empirical evidence. The second half of the winter semester examines time inconsistency in monetary policy, uncertainties in monetary policy design and the term structure of interest rates.

## 5 Teaching Objectives

Monetary Economics course provides students with the theoretical building blocks that are needed for an understanding of the monetary theory and surveys the issues in the present-day monetary policy implementation faced by the central banks. The course equips students with the necessary background to analyze problems involving the determination of interest and exchange rates in the economy as well as with the understanding of what central banks can do to improve the economic performance through the use of the monetary policy instruments.

## 6 Teaching Methods

The following methods and forms of study are used in this course: *lectures*, *classes*, written *home assignments* (once per 1-2 weeks), teachers' *consultations* (2 hours per week) and *self-study*. The course is taught during two semesters of the 4<sup>th</sup> year of education at ICEF. Lectures are designed to help students to understand the main concepts of the course. Lectures will be given primarily through slides, with discussions, academic articles and videos to compliment and reinforce concepts. All content in lectures are assessable.

The classes are used to illustrate the theory with references to policy issues, empirical studies and quantitative tasks. The home assignments have two goals: they are used to monitor the students' progress in the course and they prepare the students for the external examination. The home assignments for fall semester will typically consist of 2-3 questions plus additional readings which tutors will cover. The mid-term and final exams for fall semester will have a structure loosely based on the UoL exams. Students should expect the standard of the course to be higher than the UoL.

## 7 Teaching Schedule

Lectures in the fall semester will be 4 academic hours long over 8 weeks. Lectures will commence at the beginning of October for 8 weeks. Check the course website [mief.hse.ru](http://mief.hse.ru) for regular postings on lecture times, or contact lecturers if in doubt.

In the fall semester, support classes will run during the whole term but problem sets will be structure in a specific way. Classes in the week following a lecture will cover the material of that lecture. Classes

before the lecture start will cover preliminary material to equip students with the necessary skills to engage with the material in the lectures. Classes after the lectures finish will cover any remaining material from the UoL course and cover problem sets for the UoL. This way, students will effectively prepare for both the ICEF and UoL exam. Note that material in BOTH the UoL and ICEF course are examinable. This includes material covered in lectures, classes and any supplementary material made available.

In the winter semester, there will be 4 weeks of lectures, each 4 academic hours. This will be followed by regular weekly lectures.

## **8 Attendance**

Attendance record will be kept in every Lecture and Class but it will not affect grades directly. Abusing the attendance records by signing in for someone other than yourself is considered dishonest behavior and will be prosecuted as plagiarism. According to previous experience, students that pass had an excellent attendance record. The reason is that the course is lecture oriented and material discussed in the lectures will cover many different sources. Lectures will compliment the lecture notes so reading the lecture notes alone will be insufficient. Lectures will be interactive where discussions will take place between the lecturer and students on material. Students are encouraged to participate in the lecture. Questions and comments are welcome during the lecture. Lecture slides will be uploaded before lectures, and students are expected to have read through them **before** attending lectures in order to maximise the use of the contact hours.

## **9 Classroom Manners: Professionalism**

It is our priority to make the lecture pleasant for the attendants. The use of all electronic devices (including cellphones, tablets and laptops) during the lecture is only allowed for reasons related to the course and on silent mode. Making noise, eating, reading irrelevant material or studying for other classes during the lecture are considered disrespectful for the instructor and the rest of the class, and will not be tolerated. Impudence and rudeness are not characteristics of educated people and are not welcome in the academic community. All students are expected to exhibit a flawless professional behavior in the premises of HSE.

## **10 Feedback, Concerns and Complaints**

The course will follow international norms regarding feedback, concerns and complaints of students. If and when they arise, and in order to deal with them fairly and efficiently, students are expected to individually discuss these directly with the lecturer. For example, no action will be taken on complaints or concerns 1) raised with other faculty, staff or Directors, 2) student petitions, anonymous or not, 3) raised via class teachers. Academic matters should be raised individually and directly with the course lecturer. Regular anonymous online polls will be conducted by the lecturer throughout the course to obtain feedback from students on course issues. Concerns and complaints raised through all other channels will be ignored.

## **11 Role of Class Teachers**

Following international norms, class teachers are given specific instructions on material to cover in classes and they are expected to follow these without any deviation. Class teachers can grade homework

for students and give detailed feedback if homework is submitted (scanned/by email) at least 2 nights before the class. Class teachers will be happy to answer any queries about material covered in lectures but it is advisable to see the Lecturer: they are a supporting resource which should be utilised. Class teachers 1) will not know what will be in the exam, 2) cannot influence course content, 3) cannot influence course standards or examination material and 4) are not a channel through which to convey to the lecturer specific complaints about the course (see Section 10). Responsibility and decision making for these are solely with the lecturer.

## 12 Academic Integrity

We have a strong position against dishonest academic behaviour. We commit that dishonesty, cheating or plagiarism will be prosecuted to the fullest extent of the Code of Student Conduct of HSE.

## 13 Students with Disabilities and Special Needs

Reasonable accommodations will be made for students with verifiable disabilities. In order to take advantage of available accommodations, students must register with the Study Office at ICEF. Students that have constraints due to religious reasons should also discuss their situation directly with the Lecturer in addition to the Study Office.

## 14 Assessment

There are intermediate and final control in the course:

- The intermediate control includes the mid-term test in the Fall semester and the Fall final exam.
- The final control includes the final exam in April and the University of London examination.

The passing grade is 35%. Students must have an overall score of 35% or more overall in the Fall semester (weighted average of mid-term examination plus Fall examination) to pass the Fall semester. The passing grade is 35%. Students must have an overall score of 35% or more overall in the Winter semester to pass the Winter semester. To pass the course overall, students must have 35% or more in the combined weighted score of the Fall term and Winter term.

There is no fixed distribution of grades, however international standards and previous experience in the course suggest that the the overall pass-rate is proportional to average lecture and class attendance.

## 15 Grade Determination

In the Fall semester the grade is given on the basis of the following criteria:

**20%** mid-term examination;

**80%** Fall examination.

The final grade is given on the basis of the following criteria:

**10%** class activity in the Winter semester;

**40%** the Winter final exam.

**50%** the Fall grade;

## 16 Tips to Succeed in Course

In order to perform well in the course students should attend all lectures and classes. Lectures are designed to compliment self-study, rather than substitute for it. Before attending lectures, the slides for that week should be read so that issues areas of particular difficulty can be raised during the lecture. Homework should be submitted to class teachers to review before the class. The course is not technical, however it may be conceptually challenging so students are recommended to discuss material with classmates before attending classes and raise issues with class teachers and lecturers during office hours. Academic articles which which are discussed or indicated in lectures are required readings and are assessable. The best way to understand them is to discuss the articles among a small group of peers and then approach the lecturer and/or tutors for clarifications. Questions on the academic articles will be either in the form of short answer questions (requiring a paragraph) or expected to be discussed briefly in the answers to conceptual questions on models. Remember, this course assesses the body of knowledge in the course, rather than testing individual components.

Regular, consistent work through the term will be sufficient to do well in the course without the need for a large amount of studying (and stress) before the exam. The mid-term and final exams will not be a mechanical reproduction of class problems or previous exam problems. They will be designed to assess the understanding of concepts, rather than reproduce results.

## 17 Course Material

Fall Semester: The **CORE** course material and material assessable for exams will be contained within

1. Lecture slides
2. Lectures
3. Academic articles, news articles, videos, interviews or any other references mentioned explicitly in lectures
4. Homework Questions
5. Classes

Additional complimentary material is found in the corresponding University of London course study guide. Note that this is **NOT** the core material for the course, but **COMPLIMENTARY** to the core course material.

Supplementary Readings:

1. *Monetary Economics* by M.K. Lewis and P.D. Mizen, New York: Oxford University Press, 2000. (LM)
2. *Money, Information and Uncertainty* by C.A.E. Goodhart, London: Macmillan, 1989. (G)
3. *International Economics: Theory and Policy* by P.R. Krugman and M. Obstfeld, London: Addison Wesley, 2003. (KO)
4. *Modern Money and Banking* by Miller R. and van Hoose D., London, 1993. (MH)
5. *The Economics of Banking and Financial Markets* by Mishkin, F., Boston, 2003. (Mishkin)

Additional internet resources which may be helpful:

1. <http://econ.lse.ac.uk/courses/ec321>
2. <http://mief.hse.ru>
3. [http://wps.aw.com/aw\\_mishkin\\_econmbfm\\_8](http://wps.aw.com/aw_mishkin_econmbfm_8)
4. [http://wps.aw.com/aw\\_krgmnobstf\\_interecon\\_7](http://wps.aw.com/aw_krgmnobstf_interecon_7)
5. <http://www.imf.org>
6. <http://www.bis.org>

## 18 Course Outline

Note that additional readings will be made available throughout the term.

### Fall Term

#### Week 1

1. The Nature of Money  
Defining money by its functions. Advantages of monetary economy over the barter economy. Types of money. Reading: UoL Ch 2
2. Demand for Money from First Principles  
The Demand for Money will be derived from first principles for different economic environments. Reading: Lecturer Notes

#### Week 2

1. Demand for Money  
Quantity theory of demand for money. Keynes' speculative demand for money. Transaction-based theories of money demand. Baumol-Tobin model and the Tobin's model of portfolio selection. Empirical evidence. Reading: UoL Ch 3
2. Money Supply  
Creation and control of the monetary base by the central bank. The banking system and financial intermediation. The base-multiplier approach to money supply determination. Monetary policy instruments. Reading: Lecturer Notes and UoL Ch 4

#### Week 3

1. Monetary Policy in Practice  
Examination of how central banks are organised and how monetary policy is enacted in practice. Reading: Lecturer Notes

## Week 4

1. Classical Theory of Money I  
The classical dichotomy and monetary neutrality. Money in general equilibrium. Walras's law and the Patinkin's critique. The Real-Balance Effect. Reading: UoL Ch5
2. Classical Theory of Money II  
Formal General Equilibrium modelling of a monetary economy through cash-in-advance constraints. Reading: Lecturer Notes

## Mid Term Exam

## Week 5

1. Stylized Facts. Reading: UoL Ch6

## Week 6

1. Dynamics: Money, Inflation and Welfare  
Real and nominal interest rates. High inflation and hyperinflation. The Laffer Curve and the inflation tax. The welfare costs of inflation and the optimal quantity of money. Reading: UoL Ch 7.
2. Classical Theory of Money III  
Formal General Equilibrium modelling of a monetary economy through cash-in-advance. Focus on policy. Reading: Lecturer Notes

## Week 7

1. Classical Theory of Money IV  
Non-neutrality of money in a classical world. The role of frictions such as information (Lucas Islands "misperceptions" model). Reading: UoL Ch8
2. Dynamics: Real Business Cycle Model  
Neo-Classical policy in practice. Reading: UoL Ch8, Plosser, C. *Understanding Real Business Cycles*, Journal of Economic Perspectives, 1989, Summer.

## Week 8

1. Dynamics: Real Business Cycle Model  
Neo-Classical policy in practice. Reading: UoL Ch8, Lecturer Notes
2. Revision

## Winter Term

## Week 1

1. Keynesian Model.  
Reading: Lecturer Notes
2. Keynesian models with money supply as a policy instrument.  
Reading: UoL Ch 9

## **Week 2**

1. Foundations of New-Keynesian Model  
Reading: UoL Ch 9, Lecturer Notes
2. New-Keynesian Model I  
Reading: UoL Ch10

## **Week 3**

1. New-Keynesian Model II  
Reading: UoL Ch10, Lecturer Notes
2. New-Keynesian Model  
Reading: Lecturer Notes

## **Week 4**

1. New-Keynesian Model in Practice  
Reading: Lecturer Notes
2. Revision

## **Weeks 5-6**

1. Time inconsistency in monetary policy  
Reading: UoL Ch 11, Lecturer Notes
2. Barro-Gordon model  
Reading: UoL Ch11

## **Weeks 7-8**

1. Uncertainties in monetary policy design  
Reading: UoL Ch 12, Lecturer Notes
2. Multiplicative uncertainty  
Reading: UoL Ch12

## **Weeks 9-10**

1. Term structure of interest rates  
Reading: UoL Ch 13, Lecturer Notes

## 19 Distribution of Hours

#	Topic	Total Hours	Lectures	Seminars	Self stu
<b>Fall term</b>					
1	The nature of money	10	2	2	6
2	Demand for money	20	4	4	12
3	Money supply	10	2	2	6
4	Monetary Policy in Practice	20	4	4	12
5	Classical theory of money	20	4	4	12
<b>Mid-term exam</b>					
6	Stylized Facts	20	4	4	12
7	Money, inflation and welfare	10	2	2	6
8	RBC	40	8	8	24
<b>Fall Term exam</b>					
<b>Winter Term Part 1</b>					
9	Keynesian Model	10	2	2	6
10	Keynesian models with money supply as a policy instrument.	20	4	4	12
11	New-Keynesian models	40	8	8	24
<b>Winter Term Part 2</b>					
12	Time inconsistency in monetary policy	10	2	2	6
13	Uncertainties in monetary policy design	20	4	4	12
14	Term structure of interest rates	20	4	4	12
Total		260	54	54	152