

**Faculty of Economic Sciences
National Research University Higher School of Economics**

Advanced Monetary Economics (Spring 2020)

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Class Times and Locations: TBA

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Office Location: TBA

Office Hours: TBA

Course page MonEco on Piazza will be the most accurate source of information for the course. Students are responsible to check MonEco page regularly. Announcements, lecture slides, the course calendar and other useful material will be posted there.

Section 1. General information about the course

The course is devoted to the main issues in modern monetary economics. First, the course introduces the concept of money and describes the functioning of money market. The factors behind money demand and supply are studied through the set of comprehensive monetary models with a special interest in New Keynesian models. Then, the course proceeds to the links between money and the main economic variables such as output, inflation and unemployment both in closed and open economies. This allows addressing the core issue in monetary economics, which is the role of monetary policy. After the study of transmission monetary channels, we address the most pertinent problem, which is the optimal monetary policy design under uncertainty. Different concepts of uncertainty are analyzed with the special focus on the role of information policy of central banks. All topics discussed during the course will be illustrated with relevant practical examples.

Section 2. Course goals, learning objectives, expected learning outcomes

The goal of the course is to provide students with the profound understanding of monetary issues.

Learning objectives of the course are:

- to present the main current macroeconomic problems;
- to describe the role of central banks in the economy;
- to introduce the students to the standard analytical methodology that figures out the optimal monetary policy measures.

Learning outcomes. By the completion of the course, students will be able to:

- understand the role of monetary policy for output, inflation and exchange rate determination, the difference between monetary policy regimes, the causes and features of financial crises in the modern economy, the opportunities and feasibilities of stabilization policy;
- analyze financial and monetary data, apply the macroeconomic tools for the analysis of monetary sphere;
- acquire the necessary skills to discuss different macroeconomic problems, the monetary authorities' actions and decisions, the consequences of monetary policy changes for the economy.

Prerequisites: Intermediate or Advanced Macroeconomics.

Section 3. Course Outline

The course consists of 10 lectures of 3 hours each. The preliminary schedule is as follows:

Lecture 1. Introduction. The concept of money

The concept of money. Money demand. Money supply. Empirical evidence on the links between money, output, inflation and other economic variables. Monetary policy operating procedures. Monetary policy regimes.

Lecture 2. The classical monetary models

Money neutrality in RBC models. Classical monetary models. Money in the utility function models. Cash-in-advance models. Comparison of the models' predictions and the empirical evidence.

Lecture 3. The basic New Keynesian Model

The main blocks of the model: representative household, firms, monetary policy rule. Monopolistic competition and price stickiness. Extensions with other possible nominal rigidities. The discussion of the New-Keynesian models: simplicity versus realism.

Lecture 4. Monetary policy design in New Keynesian models

Monetary policy instruments. Money supply rules versus interest rate rules. The problem of determinacy. The overview of the practice of monetary policy among central banks in advanced economies.

Lecture 5. The optimal monetary policy

The social welfare function in the New Keynesian model. Optimal policy rules. Policy tradeoffs: inflation-output tradeoff and stabilization bias. Time inconsistency of the optimal policy. Discretion versus commitment.

Lecture 6. Monetary policy at zero-lower bound

The New-Keynesian model extension: ZLB constraint. The origins of liquidity traps. Effective lower bound. Conventional monetary policy at ZLB. Unconventional policies: forward guidance,

quantitative and qualitative easing. The evidence of monetary policy effectiveness in advanced countries at ZLB.

Lecture 7. Monetary policy under uncertainty

The types of uncertainty: additive uncertainty, multiplicative uncertainty, model uncertainty. Robust monetary policy. Attenuation effect. The role of information policy under uncertainty.

Lecture 8. Communication policy of a central bank

Information as a policy tool. The overview of central banks communication. The optimal design of communication policy. Communication policy at ZLB and during financial crises.

Lecture 9. Monetary policy in an open economy

A two-country New Keynesian model. A small open economy. The optimal exchange rate policy. Optimal monetary policy rules in an open economy. Currency unions.

Lecture 10. Financial markets and monetary policy

The term structure of interest rates. Financial frictions in credit markets. The monetary policy effects on yield curve.

Assessment forms to be used: short quizzes during lectures, the mid-term written exam, the written exam.

Section 4. Texts, readings and other informational resources

1. Required readings:

- Galí, J. (2015), *Monetary policy, inflation and the business cycle: An introduction to the New Keynesian framework and its applications*, Princeton: Princeton University Press
- Walsh C.E., *Monetary Theory and Policy*, 2nd ed., The MIT Press, Cambridge, 2003.
- Walsh, C.E. (2010), “*Monetary Theory and Policy*,” MIT Press, 3rd edition

2. Additional readings:

- Friedman, B.M., and Woodford, M. (eds) (2011), *Handbook of Monetary Economics*, Amsterdam: North-Holland

Section 5. Examination/Evaluation

1. Attendance (0%)

Attendance is not evaluated but is highly recommended to understand better the concepts learned during the classes. Previous experience has shown that the average mark is usually higher for the students who actively participate in sessions. Lectures will be interactive with discussions between the lecturer and students. Questions and comments are welcome during the lectures.

2. Short quizzes (20%)

Short quizzes are based on topics covered in the class. No possibility is given to complete the missed

quizzes.

3. Mid-term written exam (40%)

The mid-term exam will cover the topics of the first half of the course. The students absent from the mid-term exam get a zero mark for it unless the absence is excused. The written documentation for the excuse is to be presented to the Students' Office in accordance with the HSE's rules.

4. Exam (40%)

The final exam will cover the topics of the course. The students absent from the final exam get a zero mark for it unless the absence is excused. The written documentation for the excuse is to be presented to the Students' Office in accordance with the HSE's rules.

Section 6. Academic Integrity

The Higher School of Economics strictly adheres to the principle of academic integrity and honesty. Accordingly, in this course there will be a zero-tolerance policy toward academic dishonesty. This includes, but is not limited to, cheating, plagiarism (including failure to properly cite sources), fabricating citations or information, tampering with other students' work, and presenting a part of or the entirety of another person's work as your own. HSE uses an automated plagiarism-detection system to ensure the originality of students' work. Students who violate university rules on academic honesty will face disciplinary consequences, which, depending on the severity of the offense, may include having points deducted on a specific assignment, receiving a failing grade for the course, being expelled from the university, or other measures specified in HSE's [Internal Regulations](#).