

EC391 – 001: Monetary Economics

Spring 2018

Monday/Wednesday 5:00-6:20pm

Professor: Laura Jackson Young

Office: Adamian Academic Center (AAC) 173

Office Hours: Monday/Wednesday 2:00pm – 3:00pm, and by appointment

Website: See course Blackboard site

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Required Textbook: *The Economics of Money, Banking, and Financial Markets* (11th Edition) - Frederic S. Mishkin

The 10th edition is a possible substitute and you can search for this or used copies of the 11th edition in order to find the best deal. Some of the material and references in the 10th edition will be slightly outdated.

Required Readings

I have posted a selection of articles on Blackboard that we will discuss throughout the semester. The Course Schedule included at the end of the syllabus (and also posted on Blackboard) highlights the material outside of the textbook that we will be using. I expect you to have read the articles before class so that you can contribute to the discussion.

Recommended Materials

Wall Street Journal, *The Economist*, *Bloomberg*: We will frequently discuss current events related to domestic and international economic conditions as well as fluctuations in financial markets. This allows us to take the concepts learned in class and apply them to real-world applications. Also, these periodicals will be valuable resources for your Economic Updates.

Course Prerequisites

Senior-level standing, (FI 305 or FI 310), FI 320, and EC 225. Open to economics-finance or finance majors, others by permission of the instructor.

Course Goals

Previous economics and finance courses have given you some exposure to the concepts of interest rates, money, the banking system, financial markets, and the Fed. This course takes an in-depth, integrated examination of the interrelated nature of these institutions. We will examine the structure and operations of the central bank, how both conventional and unconventional monetary policy is implemented, and how these policy actions affect financial markets, the aggregate economy, and international markets. The financial crisis marked the beginning of a very unique period in monetary history. In this course, we will discuss in detail the behavior of financial and credit markets during this time as well as the unprecedented implementation of monetary stimulus in both the United States as well as many advanced economies.

Learning Objectives

A. Knowledge Objectives:

- Understand how and why the Federal Reserve implements policy, limitations of those policies, and effects of those policies.
- Understand how money markets, financial markets, and the real economy are linked together.

- Define the role of interest rates in the economy, and understand how they are determined.
- Recognize the international dimensions of monetary policy, such as how foreign exchange markets operate, how central banks around the world conduct monetary policy, and global economic conditions.

B. Skills Acquired:

- Be able to read Federal Reserve statements and financial press articles with an understanding of economic concepts and provide critical analysis.
- Effectively communicate your knowledge of economic and financial concepts and their implications.
- Use financial and economic databases to obtain relevant data to demonstrate proficiency of key concepts.

C. Perspectives Gained:

- View policy decisions in a global perspective by having an informed awareness of both national and international economic conditions.
- Embrace economic literacy as a social responsibility: Achieve a better understanding of policy decisions to become a more well-informed voter and citizen.

Grading

Evaluation for the course will be based upon:

- | | |
|-----------------------------------|-------|
| - Midterm Exams (2 @ 25%) | = 50% |
| - Final Exam | = 25% |
| - Economic Updates (3 @ 6%) | = 18% |
| - FREDcast Participation | = 1% |
| - News Update/Class Participation | = 6% |

Exams

Midterms: The midterm exams will be held in class on **Wednesday, February 21 and Wednesday, April 4**. The exams will focus on classroom material, the text, and readings. The format of the exam will include multiple-choice, short-answer problems, and essay questions. Each exam will be worth 25% of your overall grade. Two weeks in advance of the exam, I will distribute a list of review questions that will be similar to what you'll see on the exam. I encourage you to work together in preparation of the exams.

Final: The final exam will be held on **Monday, May 7th** from **11:0am – 1:00pm**. It will be a **cumulative** assessment of the material learned throughout the semester but will focus more on the later portion of the course. The final exam will be of a similar format to the midterms and will cover the material presented in class, article discussions, and Econ Update discussions.

Missed Exams: There will be no make-up midterm exam. You are forewarned well in advance to properly schedule your time and make proper arrangements for other potential conflicts. If you must miss one of the midterm exams, for example due to illness, you may be allowed to transfer the missed credit to the final exam – therefore the final exam will count for 50% of your grade. You must present your explanation for any absences in writing to me in advance if the reason for the absence could be foreseen, or as soon as possible thereafter if the reason for the absence could not be foreseen. It is up to my discretion whether or not to accept your absence note. If you have prior commitments for the date of the final exam that preclude you from being present, you should not be enrolled in this class.

Please check your final exam schedule early for any conflicts. The Registrar establishes the official final exam schedule. According to their policy, if you have more than two final exams in one **calendar** day, you may be able to reschedule one of the exams. If this is an issue, **please contact me ASAP**.

Economic Updates

In association with each FOMC meeting scheduled during our course (specific dates provided below) you will provide an Economic Update. Your goal is to summarize activity in financial markets, macroeconomic fluctuations (both U.S. and international), and policy activity. The purpose of this exercise is to inform and shape your perspective on the health of the economy, the future path of financial markets, and expectations regarding future policy action. We will discuss each Econ Update in class during the week of the FOMC meeting. This will allow your group to summarize your expectation of any policy changes to come in the next FOMC statement.

You may work alone or with one other person on the reports. If you choose to work with a partner, please email me by 1/24 with your group and understand that you will be working with the same person all semester.

You will be responsible for 3 Econ Updates throughout the semester. The entire report should be around 5 pages in length (including tables/figures). You must include appropriate citations in the text and a list of references at the end.

You or your partner must submit a printed, stapled report to me by 5:00pm on the day in which it is due. If working with a partner, please put both of your names on the report. **Also, you or your partner must upload the report to Turnitin via the course Blackboard site.**

Each month, we will discuss the overall trends in student responses in class the day the reports are due. For this day, please prepare an approximately 5-7 minute presentation to share your report. You **do not** need to prepare PowerPoint slides for a formal presentation. We will work in groups on the FOMC meeting days to share your findings with the class in an informal, discussion-based setting.

The in-class presentations/discussions will be valuable to your analyses and therefore any Econ Updates submitted late (but within 24 hours) will be worth a maximum of 75% credit, 50% if submitted within 48 hours, and zero credit after 48 hours. It is important to be in class on the days during which we will present and discuss the Econ Updates. **Participation in these discussions will contribute to your grade for each Econ Update.**

Economic Updates must contain:

- **Month in review:** An overview of the markets, economy, and policy environment over the past month. *Discuss* how the events that have occurred in the previous month influence your assessment of overall economic activity and inflationary pressures, and how these effects might influence businesses and investors. The analysis should also include a discussion of how current economic conditions relate to economic theories discussed in class. You are to use the AD/AS model and models of the money market, the yield curve, the labor market, etc. (whatever we have discussed up to that point) to connect your discussion to the course material. Do not simply list the data released in the past month. You must discuss the relevance of any data and/or figures you include in your analysis.
- **Outlook:** Describe how your outlook has or hasn't changed, based on any news and/or development since the previous month.
- **Policy Recommendation:** Summarize and explain your expectations of future monetary policy action.

Possible Data Sources

This is **NOT** an exhaustive list and you are welcome to seek out other, legitimate data sources.

- FRB Beige Book/Summary of Commentary on Current Economic Conditions (Published 8x per year, in advance of the FOMC meetings): <http://www.federalreserve.gov/monetarypolicy/beigebook/>
- Bloomberg Economic Calendar: <http://www.bloomberg.com/markets/economic-calendar>

- Wall Street Journal Economic Calendar: http://online.wsj.com/mdc/public/page/2_3063-economicCalendar.html
- The Economist – Economic and Financial Indicators: <http://www.economist.com/indicators>
- FOMC Policy Press Releases: <http://www.federalreserve.gov/newsevents/press/monetary/2015monetary.htm>

Economic Update Due Dates:

- Wednesday, January 31
- Wednesday, March 21
- Monday, April 30

FREDcast

Our class will compete in a FREDcast league, an economic forecasting game developed by the Federal Reserve Bank of St. Louis, throughout the semester. You are expected to submit forecasts each month for 4 main economic indicators: GDP, year-over-year CPI inflation, the unemployment rate, and payroll employment. All of the forecasts are for the current month (or, for GDP, quarter). Players must enter their forecasts online or on the app **by the 20th of each month**. **Late submissions will *not* be accepted by the system.**

I will discuss the details more in class and instructions for joining the league are posted on Blackboard. Submission of your monthly forecasts will be worth 1% of your overall grade. Additionally, we will use trends in the FREDcasts to discuss policy implications of current macroeconomic developments. I will award one point extra credit on an exam to the student at the top of the leaderboard each month. I will explain the extra credit possibilities further in class. Join FREDcast at: <https://research.stlouisfed.org/useraccount/fredcast/>

Class Participation

I expect all students to actively participate during lectures and class discussions. We will regularly discuss economic research, news articles and current events. You should familiarize yourself with the material before class so that you can contribute to the discussion. This will help to enhance your understanding of the material and improve your critical thinking skills regarding monetary economic theory and application. Furthermore, this will make the class more engaging and interesting for all.

I expect you to be present on the Econ Update presentation/discussion days and be prepared to share your research and insight with the class. Part of your grade for these assignments will be based on your participation in these discussions.

Also, we will work through in-class exercises during most class meetings. I expect you to attempt to work through these exercises and share your thoughts with the class. I will post solutions to the in-class exercises on Blackboard and these will be helpful when preparing for exams.

News Update

I will generally start each class meeting with an update of current events in economic developments and monetary policy around the world. The goal of this exercise is to help you learn to apply the concepts learned in class to real-world situations and to help inform your research for the Economic Updates. You (and your partner, if applicable) will need to sign up for one class period in which you'll present the News Update of the day. You are to find whatever data releases, news stories, policymaker speeches, etc. you find relevant from the period since our last class meeting. I'll discuss this further in class. On Blackboard, you will find a link to access a shared document in which you must select your presentation date by 1/24/2018.

Student Responsibilities

Academic Integrity:

This class will be conducted in full accordance with Bentley's policies about academic integrity and the Bentley Honor Code. These can be found in the Student Handbook: <http://www.bentley.edu/offices/academic-services/policies-and-procedures#Academic%20Integrity>. The best way to avoid a problem is to consult with your instructor before taking any action that might constitute a violation.

Learning is a privilege that demands responsibility. At Bentley, students and faculty are members of an academic community that supports integrity both inside and outside the classroom. The expectation at Bentley is that students will take advantage of the opportunity for intellectual development and, in doing so, will conduct themselves in a manner consistent with the standards of academic integrity. When these standards are violated or compromised, individuals and the entire Bentley community suffer. Students who engage in acts of academic dishonesty not only face university censure but also may harm their future educational and employment opportunities. In other words, don't bring unauthorized materials into exams, don't plagiarize someone else's work, and make sure that your collaborations are conducted in accordance with university and course policy.

Exams: In-class exams must be completed individually without the help of prohibited materials. These resources are not to be used under any circumstances: cell phones, programmable calculators, computers and/or iPads/tablets, textbooks, or notes. Cheating will not be tolerated.

Individual and Group Writing Assignments: Under no condition is plagiarism excusable. Any idea or language that did not originate with you must include a citation. For help in avoiding plagiarism, please visit: www.plagiarism.org or <https://owl.english.purdue.edu/owl/section/3/33/>. For this class, either the MLA and APA style of citation is acceptable. The Bentley library webpage also provides very helpful guidance on citing sources (<http://libguides.bentley.edu/citingsources>).

The work in the Econ Update reports must be original. You may not collaborate with anyone other than your partner but you are welcome to seek guidance from the instructor of this course. As a member of a team, you share responsibility of the work for the entire team. If plagiarism or the use of prohibited materials is detected in the work of one team member, the entire team will be sanctioned. This course will use the Turnitin service to check your work for originality.

Tutoring: Students are allowed to have private tutors or lab assistants help them understand the material, however it is always recommended that the student seek help from the instructor for better understanding of course material. It is expected that the student will notify the instructor if s/he is frequently using a tutor or lab assistant. Tutors or lab assistants may NOT complete assignments on behalf of the student.

Information for Students Who Require Special Accommodations:

Bentley University abides by Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990 which stipulate no student shall be denied the benefits of an education solely by reason of a disability. If you have a hidden or visible disability which may require classroom accommodations, please call the Office of Disability Services within the first 4 weeks of the semester to schedule an appointment. **The Office of Disability Services** is located in the **Office of Academic Services (JEN 336, 781.891.2004)**. The Office of Disability Services is responsible for managing accommodations and services for all students with disabilities.

If you are registered with Disability Services, please get in touch with me as early as possible so that we can review your accommodation plan.

Student Conduct:

While I do not take attendance, I do expect you to come to class and participate. Our class meetings will be the best way to learn and understand the material. I will frequently ask students to share their answers and ideas with the class and I encourage you to at least try and answer to the best of your ability. I don't care if you always get the right answers but I want you to be able to think and apply the concepts we are covering in class. Do not hesitate to come meet with me if there are topics with which you are struggling and need additional review.

I will not respond to questions regarding grades via email. If you have any questions or concerns about your grades, you must meet with me in person. I will post all assignment and exam grades on Blackboard. The University Grading Scale applies in this course.

Useful Information

Snow-Cancellation Make-Up Policy:

Hopefully we do not have to work with cancellations due to inclement weather. However, if necessary, we will abide by the official university closing policy. As a first option, should a make-up class be necessary, we will utilize the allotted make-up day chosen by the Registrar. As an alternative, I may assign extra exercises or a movie to view and summarize on your own time. We will address these issues at the appropriate time should the weather present a problem.

Economics/Finance/Statistics Learning Center:

Economics students have access to the Economics, Finance and Statistics Learning Center for help with course material and to expand their study of economics. The center is staffed by top economics students, who are eager to help you understand relevant topics or simply discuss economics topics of interest.

Location: AAC 122. Hours are found at the URL: <http://www.bentley.edu/academics/departments/economics/eco-fi-stat-learning-center>

Writing Center:

The Writing Center offers one-on-one tutoring to students of all years and skill levels. Located on the lower level of the Bentley library (room 023), the Writing Center provides a welcoming and supportive environment in which students can work on writing from any class or discipline. Writers are encouraged to visit at all stages of the writing process; they can come with a draft, an outline, or just some initial thoughts and questions.

Staffed by highly skilled student tutors, the Writing Center is open six days a week. Drop-ins are welcome, but appointments are encouraged and can be made online at www.bentley.mywconline.net or by phone at 781.891.3173. For hours and additional information, visit our website at www.bentley.edu/writing-center.

ESOL Center:

"The ESOL Center offers writing and English language support to students who are English Speakers of Other Languages (ESOL). Our faculty tutors specialize in working with multilingual writers and can provide feedback and strategies on writing for all your course and career-related writing. You're welcome to come in for help at any stage of the writing process, from the brainstorming and organizing point through the final drafting stage. In addition, you can receive support related to source documentation, Power Point slide reviews, oral presentation practice, and pronunciation along with conversation fluency and enrichment.

The ESOL Center is located on the lower level of the Bentley Library, room 026. Day and evening appointments can be scheduled through <https://bentleyesol.mywconline.net> or by dropping by the ESOL Center to see if a faculty tutor is available. Because of the high demand for appointments, however, we encourage scheduling a time in advance whenever possible.”

Tentative Course Outline:**

Date	Day	Major Topics Covered	Economic Updates
1/17/2017	W	Chapter 1: Why Study Money, Banking, and Financial Markets? (REVIEW ON YOUR OWN) Chapter 2: An Overview of the Financial System (REVIEW ON YOUR OWN)	
1/22/2017	M	Chapter 3: What is Money? Read: "What the World's Central Banks Are Saying About Bitcoin" - Bloomberg Read: "Would a Gold Standard Brighten Economic Outcomes?" - FRBSTL	
1/24/2017	W	Chapter 4: The Meaning of Interest Rates (REVIEW ON YOUR OWN)	
1/29/2017	M	Chapter 5: The Behavior of Interest Rates Read: "IMF Warns One of Most Crowded Bond Trades Near Tipping Point" – Bloomberg	
1/31/2017	W	FOMC Meeting 1/30 – 1/31	EU1 Due
2/5/2017	M	Chapter 6: The Risk and Term Structure of Interest Rates	
2/7/2017	W	Read: "How Successful is the Fed at Controlling Interest Rates?" – FRBSTL	
2/12/2017	M	Chapter 19: Quantity Theory, Inflation, Demand for Money Read: "The Liquidity Trap: An Alternative Explanation for Today's Low Inflation" – FRBSTL <i>Regional Economist</i>	
2/14/2017	W	Chapter 13: Central Banks and the Federal Reserve System (REVIEW ON YOUR OWN) Chapter 14: The Money Supply Process	
2/19/2017	M	Catch-up material/Review for midterm	
2/21/2017	W	MIDTERM 1	
2/26/2017	M	Chapter 15: Tools of Monetary Policy	
2/28/2017	W	Read: "Helicopter Money: Why Some Economists Are Talking About Dropping Money From the Sky" - <i>The New York Times</i>	
3/5/2017	M	NO CLASS – Spring Break	
3/7/2017	W		
3/12/2017	M	NOT IN TEXTBOOK: "A Student's Guide to Unconventional Monetary Policy"	
3/14/2017	W	Read: "Interest Rate Control is More Complicated Than You Thought" – FRBSTL Read: "How the Fed Changes the Size of Its Balance Sheet" – FRBNY, Liberty Street Economics	
3/19/2017	M	Chapter 21: Monetary Policy and Aggregate Demand	
3/21/2017	W	FOMC Meeting 3/20 – 3/21	EU 2 Due
3/26/2017	M	Chapter 22: AD-AS Model Read: "The Phillips curve may be broken for good" – <i>The Economist</i>	
3/28/2017	W	Chapter 23: Monetary Policy Theory	
4/2/2017	M	Catch-up material/Review for midterm	
4/4/2017	W	MIDTERM 2	
4/9/2017	M	Chapter 16: The Conduct of Monetary Policy – Strategy and Tactics Read: "Dates vs data: Should central banks offer timelines for monetary policy?" – <i>The Economist</i>	
4/11/2017	W	NOT IN TEXTBOOK: "Analyses of Low Real Interest Rates" Read: "Monetary Policy in a Low R-star World" – John Williams, FRBSF <i>Economic Letter</i>	
4/16/2017	M	NO CLASS – Patriot's Day	
4/17/2017	T	Chapter 7: Theory of Rational Expectations (only)	
4/18/2017	W	Chapter 24: The Role of Expectations and Monetary Policy	
4/23/2017	M	Chapter 17: Foreign Exchange Markets	
4/25/2017	W	Chapter 18: International Financial System Read: "China's Exchange Rate Policies and US Financial Markets" – FRBSF <i>Economic Letter</i>	

4/30/2017	M	FOMC Meeting 5/1 – 5/2	EU 3 Due
5/7/2017	M	FINAL EXAM: 11:00am-1:00pm	

****Disclaimer:** Although I intend to follow this outline as closely as possible, there may be times when deviations from the material presented herein are necessary.