University of Wisconsin-Whitewater

Curriculum Proposal Form #3

## New Course

**Effective Term:**

**Subject Area - Course Number:** **ECON 775 Cross-listing:**

(See Note #1 below)

**Course Title:** (Limited to 65 characters) Monetary Economics

**25-Character Abbreviation:** Monetary Economics

**Sponsor(s):** Yamin Ahmad

**Department(s):** Economics

**College(s):**

# **Consultation took place**: [x]  NA [ ]  Yes (list departments and attach consultation sheet)

Departments:

**Programs Affected:** **None**

**Is paperwork complete for those programs?** (Use "Form 2" for Catalog & Academic Report updates)

[x]  NA [ ]  Yes [ ]  will be at future meeting

**Prerequisites:** ECON 738 - Quantitative Methods in Economics; ECON 732 - Macroeconomic Theory; Econ 733 - Econometrics I

**Grade Basis:** [x]  Conventional Letter [ ]  S/NC or Pass/Fail

**Course will be offered:** [x]  Part of Load [ ]  Above Load

 [x]  On Campus [ ]  Off Campus - Location

**College:**  **Dept/Area(s):** ECON

**Instructor:** Yamin Ahmad

 *Note: If the course is dual-listed, instructor must be a member of Grad Faculty.*

**Check if the Course is to Meet Any of the Following:**

[ ]  Technological Literacy Requirement [ ]  Writing Requirement

[ ]  Diversity [ ]  General Education Option:

Note: For the Gen Ed option, the proposal should address how this course relates to specific core courses, meets the goals of General Education in providing breadth, and incorporates scholarship in the appropriate field relating to women and gender.

**Credit/Contact Hours:** (per semester)

Total lab hours: 0 Total lecture hours: 48

Number of credits: 3 Total contact hours: 48

**Can course be taken more than once for credit? (Repeatability)**

[x]  No [ ]  Yes If "Yes", answer the following questions:

No of times in major:       No of credits in major:

No of times in degree:       No of credits in degree:

Proposal Information: ([***Procedures for form #3***](http://acadaff.uww.edu/UCC/Curriculum_Handbook_09/Procedures_form3.docx))

**Course justification:**

This proposed course will be an elective course for students in the MS Economics programs. The course is intended for those students who want to develop a greater understanding of monetary theory and monetary policy using macroeconomic models that contain the most recent developments in the field. Since the course will be one of the elective courses of the MS Economics Degree, it will be offered to all students as part of a selection of macroeconomics course electives.

**Relationship to program assessment objectives:**

This course addresses the following learning goals: Analytical and Critical Thinking, Quantitative Proficiencies, Economic Literacy and Communication. The specific student learning outcomes (traits) that this course will address are:

* Students are able to solve intertemporal problems using optimization techniques.
* Students are able to interpret the results of vector autoregressions used in the analysis of monetary policy.
* Students will be able to write a literature review that outlines some key developments in this field.
* Students are able to cite and reference work appropriately.
* Students will be able to make a short 20 minute presentation that summarizes a recent research paper.

**Budgetary impact:**

* **Staffing**:- the course will be staffed by a Economics Department faculty that is Academically Qualified (AQ) and has Grad Faculty status.
* **Academic unit library and service & supply budget:** - no budgetary impact.
* **Campus instructional resource units**:- impact is minimal; students will require the use of a computer lab, and these are readily available in Hyland Hall, McGraw and the Library.
* **Laboratory/studio facilities:**- No budgetary impact
* **Classroom space:**- A classroom is anticipated to be required in Hyland Hall to teach the class. The class will meet for 1hour 15 minute session, twice per week.
* **Evaluation of adequacy of current library holdings, recommendations for acquisitions, and impact of the course on the academic unit library allocation budget:** - No impact. The course will be taught using a graduate textbook which students will be required to obtain.
* **Explanation if the course is simply replacing another course, either entirely or in the cycle:**- This is a new course for the MS Economics degree, and does not replace any other courses.

**Course description:** (50 word limit)

This course focuses on monetary theory and policy. It surveys selected current research topics in the field. Topics studied include alternative models of money, the transmission mechanism of monetary policy, the persistence of inflation, and the conduct of monetary policy is a New Keynesian environment.

**If dual listed, list graduate level requirements for the following:**

1. **Content** (e.g., What are additional presentation/project requirements?)

N/A

2. **Intensity** (e.g., How are the processes and standards of evaluation different for graduates and undergraduates? )
N/A

3. **Self-Directed** (e.g., How are research expectations differ for graduates and undergraduates?)
N/A

**Course objectives and tentative course syllabus:**

**ECON 775 Summer 2015**

**Monetary Economics Yamin S. Ahmad**

Office: 4402 Hyland Hall, Tel: x5576, Email: ahmady@uww.edu

***Office Hours***

Walk in: MW 2:00pm – 5:00pm; Email: F 9am – 11am; and by appointment.

**Course Web Page:** <http://facstaff.uww.edu/ahmady/courses/econ7XX/>

This is the web page for the course. Here you can find the course schedule, lecture notes, problem sets and more.

**Prerequisites**

ECON 732 – Macroeconomic Theory

ECON 731 – Microeconomic Theory

ECON 738 – Quantitative Methods in Economics

**Required Resources**

1. Required Text: *Monetary Theory and Policy*, by Carl E. Walsh, 3rd Edition (MIT press), ISBN:978-0-262-01377-2.

Other useful texts or sources you may wish to look at:

* *Advanced Macroeconomics*, by David Romer, 4th edition, (McGraw-Hill), ISBN: 978-0073511375
* *Recursive Macroeconomic Theory*, by Lars Ljungqvist and Thomas Sargent, 2nd edition (MIT Press), ISBN: 978-0262122740
* *Interest and Prices: Foundations of a Theory of Monetary Policy,* by Michael Woodford, 1st Edition (Princeton University Press), ISBN: 978-0691010496

**Course Description Objectives and Assessment**

This course aims to provide students with an introduction into monetary economics accompanied by an understanding of the connections between monetary theory and modern theories of short-run fluctuations (e.g. real business cycle theory and New Keynesian models). The course is divided into two main parts. The first part focuses on monetary theory, whilst the second part focuses on monetary policy and its impact on the macroeconomy, including the dynamic effects of monetary policy. Upon completion of this course, students will have a good foundation of modern monetary economics, with an explicit understanding of the issues surrounding monetary policy and its impact on the macroeconomy.

**Course Requirements and Grading**

This course has the following requirements which will be used to assign you a grade at the end of the semester. There will be three quizzes, a group presentation, a literature review and a final exam. Each quiz is worth 10 percent each, the paper is worth 30 percent, the presentation is worth 10% and the final exam is worth 30 percent.

 Weight

Quizzes 3 x 10% (each) = 30 %

Presentation 10 %

Literature Review 30 %

Final Exam 30 %

 100 %

**A Note on Letter Grades**:

As a general guideline, grades will be assigned based on the raw scores from the grading scheme above as follows:

A: >=86 C+: 66-69

A-: 82-85 C: 62-65

B+: 78-81 C-: 56-61

B: 74-77 D: 50-55

B-: 70-73 F: <50

**Please note that the scale above is only an approximation**. I will curve the raw scores obtained from the grading scheme above at the very end of the semester.

**Attendance Policy**

Enrollment in this course is taken as a commitment from you that you have made room in your life to fulfill the obligations of this course - coming to class, being there for exams when they are scheduled, etc.  I will not record attendance, but you will find yourself at a significant disadvantage if you miss class.  **It is the student’s responsibility to obtain any materials or information missed due to absence.**

**Advice**

The key piece of advice that I would say to you is to make sure you spend sufficient time trying to grasp the ideas that are being presented in class and in the papers you will read. These ideas are often complex and it takes time to fully grasp the issue at hand. You may find it useful as well to attend my office hours with any questions that you have. However, if you choose to use office hours, please come prepared with a list of questions, as that will probably allow us to use the time more effectively.

There is a lot of math in this course**. If you get stuck or feel like you’re falling behind, talk to your peers and do come use my office hours!** Come and see me if you have any questions whatsoever, be it about the material, or some concept you haven’t fully grasped yet. It will be easier for me to put you on the right track rather than have you struggle through something that you do not understand.

**Policy Statement**

*The University of Wisconsin-Whitewater is dedicated to a safe, supportive and non-discriminatory learning environment.  It is the responsibility of all undergraduate and graduate students to familiarize themselves with University policies regarding Special Accommodations, Misconduct, Religious Beliefs Accommodation, Discrimination and Absence for University Sponsored Events.  (For details please refer to the Undergraduate and Graduate Timetables; the “Rights and Responsibilities” section of the Undergraduate Bulletin; the Academic Requirements and Policies and the Facilities and Services sections of the Graduate Bulletin; and the “Student Academic Disciplinary Procedures” [UWS Chapter 14]; and the “Student Nonacademic Disciplinary Procedures” [UWS Chapter 17].*

**UWW Student Honor Code**

*As members of the University of Wisconsin – Whitewater College of Business & Economics community, we commit ourselves to act honestly, responsibly, and above all, with honor and integrity in all areas of campus life.  We are accountable for all that we say and write.  We are responsible for the academic integrity of our work.  We pledge that we will not misrepresent our work nor give or receive unauthorized aid.  We commit ourselves to behave in a manner that demonstrates concern for the personal dignity, rights and freedoms of all members of the community.  We are respectful of college property and the property of others.  We will not tolerate a lack of respect for these values.*

*This code originated at Wheaton College.*

**Course Outline and Reading List**

This course outline is tentative and I reserve the right to amend the schedule as I see fit. These changes will be announced in class and posted on the course webpage. We will cover as many topics as time permits, which in turn will depend on the pace of the class. Starred items represent articles that are required readings.

## 1. Monetary Facts and an Overview

* Walsh, chapter 1
* McCandless, George and Warren Weber (1995) “Some Monetary Facts”, Federal Reserve Bank of Minneapolis *Quarterly Review* 19:3, 2-11.
* \* Christiano, Lawrence, Martin Eichenbaum and Charles Evans (1999) “Monetary Policy Shocks: What Have We Learned and to What End? ”, in J. Taylor and M. Woodford (eds,), *Handbook of Macroeconomics*, Vol 1A, Elsevier North-Holland, 65-148.
* Friedman, Milton (1968) “The Role of Monetary Policy”, *American Economic Review,* 58:1, 1-17.
* Lucas, Robert (1996) “Nobel Lecture: Monetary Neutrality”, *Journal of Political Economy* 104:4, 661-682.

## 2. Three Theories of Money, the Optimum Quantity of Money, and the Welfare Cost of Inflation

1. The Townsend Turnpike Model
* Ljunqvist-Sargent, chapter 25
* \* Bewley, Truman (1980) “The Optimum Quantity of Money”, in J.H. Kareken and N. Wallace (eds.) *Models of Monetary Economies.* Federal Reserve Bank of Minneapolis, 169-210.
* Townsend, Robert (1980) “Models with Spatially Separated Agents”, in J.H. Kareken and N. Wallace (eds.) *Models of Monetary Economies.* Federal Reserve Bank of Minneapolis, 265-304.
* Imrohoroglu, Ayse (1992) “The Welfare Cost of Inflation Under Imperfect Insurance”, *Journal of Economic Dynamics and Control*, 16, 79-92.
1. Money In Utility Function
	* Walsh Section 2
	* Bewley, T. (1983) “A Difficulty with the Optimum Quantity of Money”, *Econometrica*, 51(5), 1485 – 1504.
	* \* Sidrauski, M. (1967) “Rational Choice and Patterns of Growth in a Monetary Economy.”, *American Economic Review*, 57(2), 534 – 544.
2. The Cash-in-Advance Model
* Walsh, section 3.3
* Cooley, Thomas and Gary Hansen (1989) “The Inflation Tax in a Real Business Cycle Model”, *American Economic Review* 79, 733-748.

## 3. A Monetary Model with Stickiness

* Walsh, chapter 6
* Romer, chapter 6
* Blanchard, Olivier and Stanley Fisher (1989) *Lectures on Macroeconomics* MIT Press, Cambridge MA, chapter 8.
* \* Wolman, Alexander (2001) “A Primer on Optimal Monetary Policy with Staggered Price-Setting”, Federal Reserve Bank of Richmond *Economic Quarterly*, 87:4, 27-52.
* Blanchard, Olivier and Nobuhiro Kiyotaki (1987) “Monopolistic Competition and the Effects of Aggregate Demand”, *American Economic Review*, 77:4, 647-666.
* Yun, T. (1996), “Nominal Price Rigidity, Money Supply Endogeneity, and Business Cycles”, *Journal of Monetary Economics*, 37, 345 – 370.

## 4. Time Inconsistency

* Walsh, chapter 7
* Ljungqvist and Sargent, chapter 22 and sections 24.6-24.8
* Romer, chapter 10
* \* Kydland, Finn and Edward Prescott (1977) “Rules Rather than Discretion: The Inconsistency of Optimal Plans”, *Journal of Political Economy*, 85, 473-491.
* \* Barro, Robert and David Gordon (1983) “Rules, Discretion and Reputation in a Model of Monetary Policy”, *Journal of Monetary Economics*, 12, 101-121.
* Sargent, Thomas (1999) “*The Conquest of American Inflation* Princeton University Press, chapters 1-4.
* Ireland, Peter (1997) “Sustainable Monetary Policies”, *Journal of Economic Dynamics and Control*, 22, 87-108.

## 5. New Keynesian Monetary Economics

* Walsh, chapter 8
* \* Clarida, R., J. Gali and M. Gertler (1999), “The Science of Monetary Policy: A New Keynesian Perspective”, *Journal of Economic Literature*, 37, 1661 – 1707.
* Canzoneri, M. B., R. E. Cumby and B. T. Diba (2007), “Euler Equations Rates and Money Market Rates: A Challenge for Monetary Policy Models”, *Journal of Monetary Economics*, 54(7), 1863 – 1881.
* Ahmad, Y. S. (2005), “Money Market Rates and Implied CCAPM Rates: Some International Evidence”,  *Quarterly Review of Economics and Finance*, 45, 699 – 729.
* \* Erceg, C., D. Henderson and A. Levin (2000), “Optimal Monetary Policy with Staggered Wage and Price Contracts”, Journal of Monetary Economics, 46, pp. 281 - 313

## 6. Inflation and Inflation Persistence

* Walsh Chapter 4
* Ljungqvist-Sargent, chapter 24
* \* Bernanke, B. S., and F. Mishkin (1997). “Inflation Targeting: A New Framework for Monetary Policy?”, *Journal of Economic Perspectives*, 11: 97 – 116.
* Bernanke, B. S. and M. Woodford (1997). “Inflation Forecasts and Monetary Policy”, *Journal of Money Credit and Banking*, 29(4), 653 – 684.
* \* Fuhrer, J. C. and G. R. Moore (1995) “Inflation Persistence”, *Quarterly Journal of Economics*, 110(1), 127 – 159.
* Gali, J. and M. Gertler (1999), “Inflation Dynamics: A Structural Econometric Analysis”, *Journal of Monetary Economics*, 44, 195 – 222.
* \* Steinsson, J. (2003), “Optimal Monetary Policy in an Economy with Inflation Persistence”, *Journal of Monetary Economics*, 50, 1425 – 1456.
* Benati, Luca. "Investigating inflation persistence across monetary regimes." *The Quarterly Journal of Economics* 123.3 (2008): 1005-1060.
* Nobay, B., I. Paya and D. Peel (2010), “Inflation Dynamics in the U.S.: Global but Not Local Mean Reversion”, *Journal of Money Credit and Banking*, 42(1), 135 – 150.
* Christiano, Lawrence and Terry Fitzgerald (2000) “Understanding the Fiscal Theory of the Price Level”, Federal Reserve Bank of Cleveland *Economic Review*, 36:2.
* \* Sargent, Thomas and Neil Wallace (1981) “Some Unpleasant Monetarist Arithmetic”, Federal Reserve Bank of Minneapolis *Quarterly Review*, Fall, 1-17.
* Sargent, Thomas (1986) “The Ends of Four Big Hyperinflations" in *Rational Expectations and Inflation*. New York: Harper and Row.
* Friedman, Milton (1959) *A Program for Monetary Stability* New York.
* Canzoneri, M. B., R. E. Cumby and B. T. Diba (2001), “Is the Price Level Determined by the Needs of Fiscal Solvency?”, *American Economic Review*, 91(5), 1221 – 1238.

**Tentative Schedule**

Weeks 1 – 2: Monetary Facts and an Overview

Weeks 3 – 4: Theories of Money

Weeks 5 – 7: Monetary Model with Inertia

Week 8: Time Inconsistency and Optimality of Monetary Policy

Weeks 9 – 11: New Keynesian Monetary Economics

Weeks 12 – 15: Inflation and Inflation Persistence

**Bibliography:** (Key or essential references only. Normally the bibliography should be no more than one or two pages in length.)

* Christiano, Lawrence, Martin Eichenbaum and Charles Evans (1999) “Monetary Policy Shocks: What Have We Learned and to What End? ”, in J. Taylor and M. Woodford (eds,), *Handbook of Macroeconomics*, Vol 1A, Elsevier North-Holland, 65-148.
* Bewley, Truman (1980) “The Optimum Quantity of Money”, in J.H. Kareken and N. Wallace (eds.) *Models of Monetary Economies.* Federal Reserve Bank of Minneapolis, 169-210.
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* Barro, Robert and David Gordon (1983) “Rules, Discretion and Reputation in a Model of Monetary Policy”, *Journal of Monetary Economics*, 12, 101-121.
* Clarida, R., J. Gali and M. Gertler (1999), “The Science of Monetary Policy: A New Keynesian Perspective”, *Journal of Economic Literature*, 37, 1661 – 1707.
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* Fuhrer, J. C. and G. R. Moore (1995) “Inflation Persistence”, *Quarterly Journal of Economics*, 110(1), 127 – 159.
* Steinsson, J. (2003), “Optimal Monetary Policy in an Economy with Inflation Persistence”, *Journal of Monetary Economics*, 50, 1425 – 1456.
* Bernanke, B. S., and F. Mishkin (1997). “Inflation Targeting: A New Framework for Monetary Policy?”, *Journal of Economic Perspectives*, 11: 97 – 116.
* Sargent, Thomas and Neil Wallace (1981) “Some Unpleasant Monetarist Arithmetic”, Federal Reserve Bank of Minneapolis *Quarterly Review*, Fall, 1-17.