

**Economics 404 - Topics in Money and Finance**  
**Fall 2014 Course Outline**

**Contact Information:**

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**Course Time, Location, Office Hours and Teaching Assistant:**

Time and location: TuTh, 2:30 – 3:50am, EV3 4412  
Office hours: Wed, 2:30 – 4:00pm or by appointment  
Teaching assistant: TBA

## 1 Course Description

This course will cover various topics on money, monetary economics, monetary policy, credit markets, banking and financial intermediation. Topics include vector autoregressions, price rigidities, targeting regimes, liquidity traps, zero lower bound, rules versus discretion, credit markets, credit rationing and bank runs. Two-thirds of the course will be devoted to the New Keynesian model and issues related to this framework. The rest of the course will cover topics related to credit markets and financial intermediation.

I will make copies of my lecture notes available on UW-LEARN. They are mostly based on the articles and book chapters included in the reading list. In addition to the lecture notes and book chapters, there are a number of required readings for this class. Most of the papers can be downloaded from the course web page or are either available online through JSTOR, from the author's or journal's website and from the Library. Please let me know if you cannot find a particular paper.

## 2 Textbooks

Below are the textbooks that I will use for this course. However, I recommend buying only the textbook by Carl Walsh.

1. Walsh, Carl E., *Monetary Theory and Policy*, 3rd edition, Cambridge: MIT Press, 2009. [CW]
2. Woodford, Michael., *Interest & Prices* Princeton University Press, 2003. (MW)
3. McCallum, Bennet., *Monetary Economics: Theory and Policy* Macmillan Publishing [McC]
4. Gary Gorton *Slapped by the Invisible Hand* Oxford University Press, 2010.
5. Useful websites: Bank of Canada, Federal Reserve System, Bank of England, especially the working papers, the NBER and CEPR.

### 3 Evaluation

- 4 assignments worth 25 percent of your marks. No late assignments allowed. If you do not hand in your assignment by the deadline, you will receive a mark of zero.
- One midterm worth 20 percent of your marks. The midterm is scheduled on Tuesday November 4, 2014.
- Final exam worth 55 percent of your marks. The final exam will be scheduled at the end of the year by the registrar's office.

#### 3.1 Policy on Missed Tests and Assignments

No make-up tests or assignments will be provided. Students who do not have a relevant medical certificate will receive a mark of zero on any missed test or assignment. For students who miss one or more tests and have a relevant medical certificate, or medical certificates, the weight of the missed tests will be automatically transferred to the final.

#### 3.2 Policy on Remarking of Tests

If you feel that your midterm was not marked properly, you must advise the instructor within 10 days of the test being handed back to the students in class. Note that if you want your test re-graded, I will remark the entire test (your mark may go up or down as a result of this)

### 4 Lecture Topics and Readings

#### 4.1 Empirical Evidence on Money and Output and SVAR

- Some basic correlations in the short and long-run
- Structural VAR (short-run and long-run restrictions)

Readings

- (i) Walsh, Ch 1
- (ii) Killian, Lutz. 2011. "Structural Vector Autoregression," forthcoming in *Handbook Of Research Methods And Applications In Empirical Macroeconomics*. This paper can also be downloaded at [Download](#)

#### 4.2 General Equilibrium Models of Money

- Money in the utility
- Cash in advance

Readings

- (i) CW, Chapter 2, Chapter 3, section 3.3 and 3.6
- (ii) Cooley, Thomas F., and Gary D. Hansen. 1995. "Money and the Business Cycle," in Cooley, Thomas F. (ed.), *Frontiers of Business Cycle Research*, Princeton: Princeton University Press

### 4.3 New Keynesian Models and Optimal Monetary Policy

- Evidence on price stickiness
- The New Keynesian model
- Optimal policy under commitment and discretion
- The stabilization bias

Readings

- (i) CW chapter 5, JG chapter 4.
- (ii) Clarida, R., J. Galí and M. Gertler. 1999. “The Science of Monetary-Policy: A New Keynesian Perspective.” *Journal of Economic Literature*. [Download](#)
- (iii) MW chapter 3

### 4.4 Monetary Policy Rules

- Taylor Principle
- Liquidity trap and the ZLB

Readings

- (i) CW Chapter 10.
- (ii) MW Chapter 2, p 85—102.
- (iii) Kozicki, Sharon. 1999. “How Useful Are Taylor Rules for Monetary Policy?” Federal Reserve Bank of Kansas City Economic Review.[Download](#)
- (iv) Clarida, Richard, Jordi Gal, and Mark Gertler. 2000. “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory,” *Quarterly Journal of Economics* 115: 147—180.[Download](#)

### 4.5 Financial Frictions in Credit Markets

- Asymmetric information, moral hazard and adverse selection
- Credit rationing
- Credit cycles and fluctuations
- Financial accelerator

Readings:

- (i) Walsh, Chapter 10

- (ii) Bernanke, B.S., Gertler, M., and S. Gilchrist. 1999. “The Financial Accelerator in a Quantitative Business Cycle Framework,” in John B. Taylor and Michael Woodford (eds.), *Handbook of Macroeconomics*, Amsterdam: North-Holland and *NBER Working Paper*, No. 6455. [Download](#)
- (iii) Kiyotaki, N., and J. Moore. 1997. “Credit Cycles,” *Journal of Political Economy*, 105:2, 211–248. [Download](#)
- (iv) Stiglitz, J.E., and A. Weiss. 1981. “Credit Rationing in Markets with Imperfect Information,” *American Economic Review*, 71:3, 393–410. [Download](#)

#### 4.6 Financial Intermediation and Banking

- Financial intermediation
- Bank runs

Readings:

- (i) Diamond, D.W. 2007. “Banks and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model,” *FRB Richmond Economic Quarterly*. 93:2, 189-200. [Download](#)

### 5 Institutional-required statements for undergraduate course outlines approved by Senate Undergraduate Council, April 14, 2009

#### 5.1 Academic Integrity

In order to maintain a culture of academic integrity, members of the University of Waterloo community are expected to promote honesty, trust, fairness, respect and responsibility. See the UWaterloo Academic Integrity Webpage <https://uwaterloo.ca/academic-integrity/> for more information.

#### 5.2 Grievance

A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70, Student Petitions and Grievances, Section 4 (<https://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-70>). When in doubt please be certain to contact the department’s administrative assistant who will provide further assistance.

#### 5.3 Discipline

A student is expected to know what constitutes academic integrity to avoid committing academic offenses and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offense, or who needs help in learning how to avoid offenses (e.g., plagiarism, cheating) or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the undergraduate associate dean. For information on categories of offenses and types of penalties, students should refer to Policy 71, Student Discipline (<http://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm>). For typical penalties check Guidelines for the Assessment of Penalties which can be found at: (<http://www.adm.uwaterloo.ca/infosec/guidelines/penaltyguidelines.htm>).

## **5.4 Appeals**

A decision made or penalty imposed under Policy 70, Student Petitions and Grievances (other than a petition) or Policy 71, Student Discipline may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to Policy 72, Student Appeals (<http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>).

## **5.5 Note for Students with Disabilities**

The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.