

**University of Waterloo
Department of Economics**

Economics 304
Monetary Economics
Winter 2011

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Meetings

This class meets on Tuesday and Thursday from 2:30-3:50pm in MC1056.

Overview

The primary goal of this course is to familiarize students with the role of money and financial markets in modern economies.

Evaluation

There will be 1 midterm worth 35% of the final grade, as well as a final exam worth 65% of the final grade. The midterm will take place during class time on Thursday February 17th. The final exam will take place during exam week at a time and place chosen by the Registrar's Office.

Observe that the midterm occurs on the Thursday just prior to spring break. Plan to be in town that day. Conflict with travel plans is not an acceptable reason for missing the midterm.

Policy on Missed Assignments and Tests

No make-up tests will be provided. Students who do not have a relevant medical certificate will receive a mark of zero on a missed test and her/his

final grade will be computed in accordance with the formula specified above. For students who do have a relevant medical certificate, or medical certificates, the weight from the missed midterm will be applied to the final exam.

Textbook

The recommended textbook for the class is:

Mishkin, F. and Serletis, P. (2008) *The Economics of Money, Banking, and Financial Markets*

The fourth edition is the most recent version.

Outline of Topics

1. Overview
 - the role of money in an economy
 - the role of financial markets in an economy
2. Introduction to Money
 - 3 functions of money
 - types and measures of money
3. Introduction to Interest Rates
 - yield
 - term structure of interest rates
4. Introduction to Central Banks
 - Bank of Canada, and other central banks
 - functions and tools of central banks
5. Central Banks and the Money Supply
 - overnight rate
 - repos, reverse repos
6. Money and Prices
 - quantity theory
 - monetary neutrality, superneutrality
 - inflation, hyperinflation
7. Aggregate Demand Stabilization
 - IS-LM
 - problems
8. Introduction to Financial Markets
 - supply of and demand for savings
9. Financial Instruments
 - debt, equity
 - Modigliani-Miller theorem

10. Asymmetric Information Problems
 - moral hazard
 - adverse selection
11. Financial Intermediation
 - banks
 - money multiplier
12. Banking and Leverage
 - Diamond model
13. Hedging and Derivatives
14. Current Events
 - the housing boom and bust
 - the credit crunch
 - the recession

University Rules

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.

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.

<http://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>

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. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 Student Discipline. 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>

Appeals: A student may appeal the finding and/or penalty in a decision made under Policy 70 - Student Petitions and Grievances (other than regarding a petition) or Policy 71 - Student Discipline if a ground for an appeal can be established. Read Policy 72 - Student Appeals.

<http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>

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.