

# UNIVERSITY OF WATERLOO

Department of Economics

Economics 404/604 - Winter 2011

## Topics in Money and Finance and Money and Banking

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Location: EVI 132

Time: 11:30-12:50 MW

Office Hours: M 10:00-11:30 or by appointment

## 1 Course Objectives and Textbooks

This course will cover various topics in monetary economics, monetary policy and central banking. Although this course will contain a mix of old and new theories, we will mostly concentrate on the recent developments on monetary policy and theory. This course will give you an overview of the main issues in monetary theory and policy and possibly ideas for thesis or dissertation research. Knowledge of Matlab is important for this course. If you are not familiar with Matlab, I will provide you with a start-up guide.

I will make copies of my lecture notes available on UW-ACE. 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. Items with two stars denote required readings, one star are papers that you can read if time permits and no star denotes suggested readings for further studies, especially if you want to deepen your understanding of a particular topic. 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.

There are two textbooks which I will use for this course. However, I recommend buying only the first book on the list.

1. Walsh, Carl E., *Monetary Theory and Policy*, 3rd edition, Cambridge: MIT Press, 2010. [CW]

2. Woodford, Michael., *Interest & Prices* Princeton University Press, 2003. (MW)

Other useful references include

3. Taylor, John B. (ed.), 1999: *Monetary Policy Rules*, Chicago: University of Chicago Press. [TAY]

4. Blinder, Alan S., "Central Bank in Theory and Practice," The MIT Press, 1999. [B]

5. Bernanke, Ben S., Thomas Laubach, Frederic S. Mishkin, and Adam S. Posen, 1999: *Inflation Targeting: Lessons from the International Experience*, Princeton: Princeton University Press. [BLMP]

6. McCallum, Bennet., *Monetary Economics: Theory and Policy* Macmillan Publishing McC]

7. Ljungqvist, Lars., and Thomas Sargent, *Recursive Macroeconomic Theory* 2nd edition, The MIT Press, 2004. (LS)

8. Sargent, Thomas., *Dynamic Macroeconomic Theory*, Harvard University Press, 1987. (TS)

9. Blanchard, Olivier Jean., and Stanley Fisher, *Lectures on Macroeconomics* Cambridge, Mass.: MIT Press, 1989. (BF)
10. Judd, Ken., *Numerical Methods in Economics* MIT Press, 2001. (KJ)
11. Useful websites: Bank of Canada, Federal Reserve System, Bank of England, especially the working papers, the NBER and CEPR.

## 2 Evaluation

- Final exam (3 Hours) at the end of the term (worth 40 percent).
- One midterm worth 20 percent of your marks.
- 4 assignments worth 40 percent of your total marks

## 3 Lecture Topics and References

### 3.1 Empirical Evidence on Money and Output and VAR

- CW, Chapter 1
- Cochrane, John H. 1998. “What Do the VARs Mean? Measuring the Output Effects of Monetary Policy,” *Journal of Monetary Economics* 41: 277—300.
- Bernanke, Ben S., and Ilian Mihov. 1995. “Measuring Monetary Policy,” NBER WP 5145.
- Faust, Jon. 1998. “The Robustness of Identified VAR Conclusions About Money,” *Carnegie-Rochester Conference Series on Public Policy* 49: 207—244

### 3.2 General Equilibrium Models of Money

#### 3.2.1 Money in the Utility Function

- CW, Chapter 2
- 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.

#### 3.2.2 Cash-in Advance Models

- CW, Chapter 3, section 3.3 and 3.6
- ) Cooley, Thomas., and Gary Hansen. 1989. “The Inflation Tax in a Real Business Cycle Model,” *American Economic Review* 79: 733—748.

### 3.2.3 Liquidity Effects and Limited Participation Models

- CW Chapter 5, section 5.2
- Fuerst, Timothy. 1992. “Liquidity, Loanable Funds, and Real Activity.” *Journal of Monetary Economics*: 29, 3—24.

### 3.3 New Keynesian Models and Optimal Monetary Policy

- CW chapter 5
- Clarida, R., J. Galí and M. Gertler. 1999. “The Science of Monetary-Policy: A New Keynesian Perspective.” *Journal of Economic Literature*.
- MW chapter 3

### 3.4 Monetary Policy Rules

- CW Chapter 10.
- MW Chapter 2, p 85—102.
- Kozicki, Sharon. 1999. “How Useful Are Taylor Rules for Monetary Policy?” Federal Reserve Bank of Kansas City Economic Review.
- 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.

### 3.5 The Credit Channel and The Financial Accelerator

- CW Chapter 7, section 7.3
- Bernanke, Ben S., Mark Gertler, and Simon 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.*]

**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.

**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)

**Note on avoidance of academic offences:** All students registered in the courses of the Faculty of Arts are expected to know what constitutes an academic offence, to

avoid committing academic offences, and to take responsibility for their academic actions. When the commission of an offence is established, disciplinary penalties will be imposed in accord with Policy #71 (Student Academic Discipline). For information on categories of offences and types of penalties, students are directed to consult the summary of Policy #71 which is supplied in the Undergraduate Calendar<sup>1</sup> If you need help in learning how to avoid offences such as plagiarism, cheating, and double submission, or if you need clarification of aspects of the discipline policy, ask your TA or course instructor for guidance. Other resources regarding the discipline policy are your academic advisor and the Undergraduate Associate Dean.

Students who believe that they have been wrongfully or unjustly penalized have the right to grieve; refer to Policy #70, Student Grievance, <http://www.adm.uwaterloo.ca/infosec/Policies/policy70.html>.

**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.

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<sup>1</sup>Section 1 on the Web at [http://www.adm.uwaterloo.ca/infoucal/UW/policy\\_71.html](http://www.adm.uwaterloo.ca/infoucal/UW/policy_71.html).