

Economics 111: Monetary Economics

Winter 2007; Solis 104; M-W-F 3:00 – 3:50 PM

Lecturer: Dr. Darrel Cohen

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Office Hours: MWF 2:00 – 3:00

Prerequisites: Math 10A or 20A; Econ 1A, 1B or Econ 2A, 2B or Econ 1, 2, 3

Teaching Assistants:

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Course Overview

The main goal of this course is for you to learn about the goals, formulation, and macroeconomic impact of monetary policy and, in so doing, improve your analytic skills. Having been an economist my entire career at the Federal Reserve Board, I will attempt to provide an insider's perspective. Actual policy is based both on theoretical relationships and on the evaluation of data and statistical relationships; as a result, this course will have both theoretical and empirical elements. The course also will consider the relationship between asset prices, interest rates, and the economy, with special attention paid to the risk and term structure of interest rates; these issues are important to an understanding of monetary policy and are of independent interest as well. Other traditional topics in courses on monetary economics will be covered, but relatively briefly, either because the topic simply is not very important currently or because institutions are changing so rapidly in the modern world that it is better to spend time learning underlying principles rather than detailed institutional facts. Some of these traditional topics include the various definitions, uses, and velocity of money as well as the detailed nature of banks and other financial institutions.

Textbooks and Other Reading

1. Stephen Cecchetti, *Money, Banking, and Financial Markets*, 1st edition, 2006. This is a new book that has excellent coverage and intuitive discussions, with a contemporary treatment of monetary policy. The book is a little short on rigor, which will be provided in class. **Required.**
2. Federal Reserve System, *Purposes and Functions*, ninth edition, 2005. Hardcopies will be available free of charge to class members; it also is available online at the web site given below. **Required.**
3. Speeches of Federal Reserve Board Governors are a great source of information on how things work at the Fed, on the state of the economy, and on various analytical issues. The web site for speeches is given below.
4. Greenbook, part 1 and 2 and the Bluebook are confidential documents prepared by the Board staff for Board members prior to the FOMC meeting. Documents

five years old have just become readily available and you will read certain parts. You also will read parts of the semi-annual Monetary Policy Report to the Congress. This will help give you an incredible inside look at the policy process. Finally, I will make available my lecture notes on the course webCT page.

Useful Web sites

www.federalreserve.gov/releases/ this contains downloadable economic data
www.federalreserve.gov/policy.htm this contains FOMC statements, etc.
www.federalreserve.gov/pf/pf.htm this contains *Purposes and Functions*
www.federalreserve.gov/speeches/2006/ this contains speeches of Governors

Course Grade: I plan to give one midterm and a final exam. Their contribution to your final grade is as follows:

Midterm	30%
Final	65%

Notice that these do not add to 100%, because I will use homework and class participation to fill in the remaining 5%. Class participation is hard to quantify and thus you should not count on it adding much to your grade, certainly in comparison to homework. Feel free to work together on homework assignments.

Also, if I feel the class is losing focus after the first midterm, I will give a second midterm. In this case, which I hope is unlikely because you all will be working hard throughout the course, each midterm will be worth 20% and the final exam will be worth 55% of your final grade (with homework, etc. making up the remainder).

Reading Assignments

I recommend that you always read the course lecture notes. Also, I will tell you which parts of the textbook readings are essential. For example, you should read Chapters 1 – 3 in Cecchetti immediately because the material will help you get quickly grounded—but there is no need to memorize the material because we will cover the important pieces in class (and in the lecture notes). I believe that the textbooks are exceptional in the care given to explaining things clearly so don't hesitate to read all the assignments, especially if you are confused by the presentations in class.

Week 1: Chapters 1, 2, 3 in Cecchetti

Weeks 2 – 4: Chapters 21, 22, 23 in Cecchetti and chapter 2 (P&F)

Weeks 5 – 7: Chapters 4, 5, 6 in Cecchetti

Week 7: Chapter 20 in Cecchetti

Week 8: Chapters 10, 19 (pages 489-499 only) in Cecchetti, and chapter 4 (P&F)

Week 8: Chapters 11 in Cecchetti

Weeks 9 – 10: Chapters 15, 16, 17, 18 in Cecchetti and chapter 3 (P&F)