

## **Economics 111: Monetary Economics**

Winter 2009; York Hall, room 2722; Tu-Th 11:00AM – 12:20 PM

Lecturer: Dr. Darrel Cohen

Office: Econ 109

Email: [dscohen@ucsd.edu](mailto:dscohen@ucsd.edu)

Office Hours: Tu-Th 12:45- 2:15 PM

Prerequisites: Math 10A or 20A; Econ 1A, 1B or Econ 3. Based on experience, I have found that students with only introductory economics as background tend to struggle relative to students who have taken (or are taking) the Econ 110 series. Thus, *I strongly recommend* that the former talk to me or to the TAs well before the exams so that we can monitor your progress and make suggestions.

Teaching Assistants:

Aeimet Lakdawala; Ben Kay; and Myungkyu Shim

### **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. Also, the course will describe and analyze the housing/financial market turmoil of 2006-2009. Certain 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.

### **Lecture Notes, Textbook, and Other Reading**

1. Detailed lecture notes are available on the course webCT page. **Required.**
2. Stephen Cecchetti, *Money, Banking, and Financial Markets*, 2<sup>nd</sup> edition, 2008. This 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.**
3. Federal Reserve System, *Purposes and Functions*, ninth edition, 2005. I have a few hardcopies that will be available free of charge to class members on a first-come, first-served basis; it also is available online at the web site given below. **Recommended.**

4. 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.

### Useful Web sites

[www.federalreserve.gov/releases/](http://www.federalreserve.gov/releases/) this contains downloadable economic data  
[www.federalreserve.gov/monetarypolicy/fomc.htm](http://www.federalreserve.gov/monetarypolicy/fomc.htm) this contains FOMC statements, etc.  
[www.federalreserve.gov/pf/pf.htm](http://www.federalreserve.gov/pf/pf.htm) this contains *Purposes and Functions*  
[www.federalreserve.gov/newsevents/speech/2007speech.htm](http://www.federalreserve.gov/newsevents/speech/2007speech.htm) this contains speeches

**Course Grade:** I plan to give one mini-midterm (at the end of the first module, probably at the start of the fourth week of class), one regular midterm and a final exam. Their contribution to your final grade is as follows:

Mini-Midterm	10%
Midterm	25%
Final	65%

Performance on homework and in class potentially can help students whose exam scores place them just below a cut line for a particular grade (e.g., a C+ based solely on exam scores could turn into a B- grade.)

### Reading Assignments

*You are required to read the course lecture notes.* The first module contains material on the housing/financial crisis that, to the best of my knowledge, does not yet appear in textbooks. If you understand everything in the notes, you will do very well in the course. However, for most students, supplementary reading in the textbook by Cecchetti will be necessary. Reading all the chapters recommended below would take a lot of time, so you should be selective, reading only material in the textbook that you find confusing or incomplete in the lecture notes and in the class lectures. I strongly recommend that everyone at least 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). Readings in *Purposes and Functions* (P&F) are optional.

Week 1: Chapters 1, 2, 3 in Cecchetti

Weeks 2 – 4: Chapters 21, 22, 23 in Cecchetti [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 455-465 only) in Cecchetti [Chapter 4 (P&F)]

Week 8: Chapters 11 in Cecchetti

Weeks 9 – 10: Chapters 15, 16, 17, 18 in Cecchetti [Chapter 3 (P&F)]