

Syllabus for Economics 111: Monetary Economics
Winter 2010; Copley Hall; Tu-Th 9:30AM – 10:50AM

Lecturer: Dr. Darrel Cohen

Office: Econ 109

Email: dscohen@ucsd.edu

Office Hours: Tu-Th 11:00AM- 12:30 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 (typically sophomores) 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.

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 the process, 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 contain both theoretical and empirical elements. The course also will consider the relationship among 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 2006-2010.

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*, 2nd edition, 2008. This book 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.** Very good updates to the text regarding the recent financial/housing crisis are available at (may have to click on link a second time):

<http://mhhe.com/dbm/rdr.pl?p=1000492130497&a=4&c=57627&s=1> or at:
http://highered.mcgrawhill.com/sites/0073523097/student_view0/update_modules.html

These textbook updates are **Highly Recommended.**

Also, Olivier Blanchard (a famous MIT professor) has an excellent video lecture on the financial crisis (made in late 2008): <http://econ-www.mit.edu/faculty/blanchard/videos>
Finally, the Federal Reserve Bank of San Francisco presents a brief, excellent overview of the financial crisis: <http://www.frbsf.org/econanswers/portal.htm>. The Blanchard and FRBSF materials are **Recommended.**

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. **Recommended.**

Useful Web sites

www.federalreserve.gov/releases/ this contains downloadable economic data
www.federalreserve.gov/monetarypolicy/fomc.htm this contains FOMC statements, etc.
www.federalreserve.gov/pf/pf.htm this contains *Purposes and Functions*
www.federalreserve.gov/newsevents/speech/2009speech.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%

The final exam will be comprehensive. 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. 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 (and the updates) 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 (and updates) 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.

Weeks 1 - 3: module 1 of lecture notes and Chapters 1, 2, 3 in Cecchetti

Weeks 4 – 6: module 2 of lecture notes; Chapters 21, 22, 23 in Cecchetti [Chapter 2 (P&F)]; also Chapters 10 (pages 220-226 only), 19 (pages 455-465 only) in Cecchetti [Chapter 4 (P&F)]

Weeks 7 – 8: module 3 of lecture notes; Chapters 4, 5, 6, 7 in Cecchetti

Weeks 9 - 10: module 4 of lecture notes; Chapter 20 in Cecchetti; also Chapters 15, 16, 18 in Cecchetti [Chapter 3 (P&F)]