

Monetary Economics (L12417)

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Module Aims and Objectives

Education Aims: The key aims of the module are:

- . to build on core macroeconomic understanding to explore monetary economics;
- . to study in detail various topical issues in the field of monetary economics;
- . to give students a comprehensive grasp of underpinnings of monetary policy analysis.

Learning Outcomes: On completing this module, the learning outcomes are such that students will be able to:

- Knowledge and understanding
 - . show knowledge of the role of money in the macroeconomy;
 - . demonstrate understanding of the channels of transmission of monetary policy;
 - . study monetary economics at a more advanced level.
- Intellectual skills
 - . show appreciation of monetary policy choices and objectives, and of the conduct of monetary policy in a macroeconomic context.
- Professional/ practical skills
 - . show the ability to develop and evaluate monetary policy models.
- Transferable (key) skills
 - . show good communication skills in seminars;
 - . display the ability to effectively work in teams in seminars;
 - . show good writing skills in the final examination.

Emphasised learning outcomes from the study of this module are:

- A2 - Apply core economic theory and economic reasoning to applied topics.
- A4 - Demonstrate understanding of verbal, graphical, mathematical and econometric representation of economic ideas and analysis, including the relationship between them.
- B4 - Perform with high levels of accuracy.
- C3 - Justify conclusions using economic arguments with appropriate rigour.
- D2 - Communicate effectively and clearly in written and oral formats.
- D4 - Show that you can work effectively in a team.

Module Downloads

Lecture slides and other material for this module can be found on WEBCT at <http://webct.nottingham.ac.uk/webct/entryPageIns.dowebct> . This is restricted to registered students only.

Lectures and Tutorials

Lectures: 2 hours per week. Seminars at the end of the semester involving three sessions and one presentation.

Module Assessment

Method of Assessment: 1.5 hour written exam (75%) plus Presentation and Group Essay of 1800 words (25%)

Module Texts

The list is suggestive not exhaustive and you should make full use of the bibliographic references in the texts. It is necessary for you to make use of the library and read widely if you are to successfully complete the module. The lecture notes are bound to be insufficient on their own as the subject is vast.

Main textbooks

The Economics of Money, Banking and Financial Markets, 9/e Frederick S. Mishkin, Pearson, 2010 [hereafter Mishkin]
Money, the Financial System and the Economy, 6/e R. Glenn Hubbard, Pearson Addison Wesley, 2008 [hereafter Hubbard].

A combination of the following would be also helpful:

Monetary Theory and Policy, 2/e, MIT Press, Carl Walsh.
The Economics of Money, Banking and Finance, 5/e, Peter Howell and Keith Bain, Prentice Hall.
Monetary Economics, Mervyn K Lewis and Paul D Mizen, Oxford University Press 2000.
Monetary Theory, Lawrence Harris, McGraw-Hill, 1988
Portfolio Theory and the Demand for Money, Neil Thompson, Macmillan, 1993.

Lecture outline and reading List

Lecture 1 What is money?

Mishkin ch 3
Hubbard ch 2

Lewis and Mizen, ch 1, 2
Kiyotaki, N. and Wright, R. (1989). On money as a medium of exchange. *Journal of Political Economy*, 97: 927-54.
New Palgrave, Money. various entries

Lecture 2 Money and the payments system

Mishkin ch 3, 12
Hubbard ch 2

Lewis and Mizen, ch 2

For helpful background, but also some challenging material beyond the scope of the module: Millard 'The foundations of money, payments and central banking: A review essay' <http://repec.org/mmf2006/up.14642.1145636019.pdf>
See also <http://www.bankofengland.co.uk/banknotes/about/history.htm> on banknotes.

Lecture 3 Overview of the financial system

Mishkin ch 2, 12
Hubbard ch 3

Howell and Bain, ch 1, 2, 3

Lecture 4 What financial companies do.

Mishkin ch 2
Hubbard ch 12

Lecture 5 Banks and banking.

Mishkin ch 10
Hubbard ch 13

Howell and Bain, ch 12

Lecture 6 Economics of banking and finance.

Mishkin ch 8
Hubbard ch 11

Presentation speech of Nobel Prize in Economics to George Akerlof
http://www.nobelprize.org/nobel_prizes/economics/laureates/2001/

See also George A. Akerlof (1970) 'The Market for "Lemons": Quality Uncertainty and the Market Mechanism' *Quarterly Journal of Economics*, Vol. 84. pp. 488-500.

Lecture 7 Interest rates and financial markets.

Mishkin ch 4, 5
Hubbard ch 4, 6

Lecture 8 Portfolio allocation and choice I.

Mishkin ch 19
Hubbard ch 5

Presentation speech of Nobel Prize in Economics to James Tobin
http://www.nobelprize.org/nobel_prizes/economics/laureates/1981/presentation-speech.html?print=1

Presentation speech of Nobel Prize in Economics to Harry Markowitz
http://www.nobelprize.org/nobel_prizes/economics/laureates/1990/presentation-speech.html

Lewis and Mizen, ch 6

Baumol, W. J. 1952. The transactions demand for cash: an inventory theoretic approach. *Quarterly Journal of Economics*, 66: 545-56.

Markowitz, H. 1952. Portfolio selection. *Journal of Finance*, 7: 77-91.

Tobin, J. 1956. The interest elasticity of transactions demand for cash. *Review of Economics and Statistics*, 38: 241-47.

Lecture 9 Portfolio allocation and choice II.

Mishkin ch 19

Hubbard ch 5

Howell and Bain, ch 8

Lewis and Mizen, ch 6

Tobin, J. 1958. Liquidity preference as behaviour towards risk. *Review of Economic Studies*, 25: 65-86.

Tobin, J. 1965. The theory of portfolio selection. In *The theory of interest rates*, ed. F. Hahn and F. Brechling, London: Macmillan.

Lecture 10 Monetary policy.

Mishkin ch 6, 13, 14

Hubbard ch 17, 18, 20

Howell and Bain, ch 9,10

Lecture 11 Monetary policy and interest rates.

Mishkin ch 15

Hubbard ch 20

Bank of England's balance sheet

<http://www.bankofengland.co.uk/markets/balancesheet/>

Bank Negara Malaysia's balance sheet

<http://www.bnm.gov.my/index.php?ch=12&pg=142&eId=box2>

Lecture 12 Objectives of monetary policy.

Mishkin ch 16

Hubbard ch 21

'Monetary policy ten years on' (Mervyn King) Lecture at LSE

<http://www.bankofengland.co.uk/publications/speeches/2002/speech181.pdf>

Bernanke, B, Laubach, T., Mishkin, F, and Posen, A. 1999 *Inflation Targeting* Princeton University Press. chs 1-3, 10, 11
Blinder, A. 1998. *Central Banking in Theory and Practice*, Cambridge, Mass.: MIT Press
Monetary Policy in the Euro Area Otmar Issing, Vitor Gaspar, Ignazio Angeloni, and Oreste Tristani, (2001) Cambridge University Press, chapters 2, 4, 8.
Changing Face of Central Banking Pierre Siklos, 2003, Cambridge University Press, chapters 1, 7.

Lecture 13 The monetary policy record.

Mishkin ch 16
Hubbard ch 21

Presentation speech of Nobel Prize in Economics to Milton Friedman
http://www.nobelprize.org/nobel_prizes/economics/laureates/1976/presentation-speech.html?print=1

Friedman, M. and Schwartz, A. 1963. *A Monetary History of the United States 1867-1960*. Princeton, NJ.: National Bureau of Economic Research.
Friedman, M. and Schwartz, A. J. 1982. *Monetary Trends in the United States and the United Kingdom: Their relation to Income, Prices and Interest Rates 1867-1975*, Chicago: University of Chicago.
Monetary Policy in the Euro Area Otmar Issing, Vitor Gaspar, Ignazio Angeloni, and Oreste Tristani, (2001) Cambridge University Press, chapter 10.
Changing Face of Central Banking Pierre Siklos, 2003, Cambridge University Press, chapter 5.

Lecture 14 Money and output.

Mishkin ch 23
Hubbard ch 26

Monetary Policy in the Euro Area Otmar Issing, Vitor Gaspar, Ignazio Angeloni, and Oreste Tristani, (2001) Cambridge University Press, chapter 1.
Walsh, *Monetary Theory and Practice*, MIT Press. ch 1

Lecture 15 Money and inflation.

Mishkin ch 24
Hubbard ch 28

Cagan, P. 1956. The monetary dynamics of hyperinflation. In *Studies in the Quantity Theory of Money*, ed. M. Friedman. Chicago: University of Chicago Press.
Friedman, M. 1956. The quantity theory of money - a restatement. In *Studies in the Quantity Theory of Money*, ed. M. Friedman. Chicago: University of Chicago Press.
Monetary Policy in the Euro Area Otmar Issing, Vitor Gaspar, Ignazio Angeloni, and Oreste Tristani, (2001) Cambridge University Press, chapters 1, 5.

Berry, S., Harrison, R., Thomas, R and Weymark, I 2007. 'Interpreting movements in the broad money', Bank of England Quarterly Bulletin
<http://www.bankofengland.co.uk/publications/index.htm>.

Lecture 16 Rational expectations.

Mishkin ch 25
Hubbard ch 26

Presentation speech of Nobel Prize in Economics to Robert Lucas

http://www.nobelprize.org/nobel_prizes/economics/laureates/1995/presentation-speech.html?print=1

Lewis and Mizen, ch 9

Backhouse, R. 1985 A History of Modern Economic Analysis, ch 26.

Barro, R. J. 1976. Rational expectations and the role of monetary policy. *Journal of Monetary Economics*, 2, January: 1-32.

Hoover, K. D. 1984. Two types of monetarism. *Journal of Economic Literature*, 22: 58-76. Reprinted in *The New Classical Macroeconomics*, Blackwells, ch. 9.

Lecture 17 New Keynesian models.

Mishkin ch 25
Hubbard ch 26

Romer, P.1993. 'The New Keynesian Synthesis' *Journal of Economic Perspectives*.

Bernanke,B and Gertler M. 1995. 'Inside the Black Box' *Journal of Economic Perspectives*.

Clarida, R. Gali, J. and Gertler, M. 1999. 'The Science of Monetary Policy', *Journal of Economic Literature*.

Lecture 18 Information, policy and monetary transmission.

Mishkin ch 23
Hubbard ch 27

Presentation speech of Nobel Prize in Economics to Finn Kydland and Edward Prescott

http://www.nobelprize.org/nobel_prizes/economics/laureates/2004/

Kydland, F. and Prescott, E. 1977. 'Rules rather than discretion: the inconsistency of optimal policy', *Journal of Political Economy*.

Barro, R. and Gordon, D. 1983 A positive theory of monetary policy in a natural rate model', *Journal of Political Economy*.

Bernanke,B and Gertler M. 1995. 'Inside the Black Box' *Journal of Economic Perspectives*.

Plagiarism

Students are reminded that plagiarism is a very serious academic offence and that they should refer back to their *Student Handbook* for confirmation of what it is and the penalties for committing it. Students are further reminded that they have signed a declaration acknowledging that they understand the nature of the offence and the attendant penalties.

Those students taking this module from outside the School should consult with the lecturer who will provide a copy of the relevant pages from the School's *Student Handbook* and a declaration form which they must sign.