EC3361.02 Monetary Theory and Policy

Course Objectives

• understanding economic methodology -- analyzing social and business issues using models derived from basic principles and testing those models with rigorous, scientific empirical analysis.
• familiarity with specific monetary and macroeconomic tools, models and concepts including central banking, monetary and fiscal policy, economic indicators, real v. nominal, economic fluctuations, transmission mechanism(s), international flows, links between the economy and financial markets, etc.
• analysis of contemporary issues in monetary economics like the efficacy of monetary and fiscal policy, the nature of the transmission mechanism, deflation, debt and deficits (government, business, household and international), financial imbalances, bubbles, contagion, etc.
• understanding how concepts from monetary economics relate to personal investing and asset management, and other decisions of economic optimization.
• analyzing new developments in monetary economics, since the Great Recession (2008), including unconventional tools of monetary economics like quantitative easing, forward guidance and negative nominal interest rates. Contemplating generational economic conflict, the new role of government management, the new long run policy, etc.

Course Materials

Fed Transcripts (focus on the last one available which is Dec. 14, 2010). The link:
Also, presentation materials:
Other online material from various sources including four special lectures presented by Ben Bernanke at George Washington University spring 2012.
http://www.federalreserve.gov/newsevents/lectures/about.htm
Grading

A midterm (35%), a final (45%), four problem sets (10% total) and a project (10%). The project will be conceived and decided upon early in the semester depending on number of students and class interests. I envision a writing project or classroom recitation on a topic that involves how monetary and macroeconomics of your generation will differ from what you learn from my generation.

General Policies

Attendance and class participation are important. There will be no specific numerical measure but class presence can move a grade up. Exams will be closed book (and probably no calculator) and include some choice. Accommodations can be arranged for special testing conditions, illness, etc. but the student must make appropriate application. If you have any questions about academic integrity consult BC’s policy http://www.bc.edu/offices/stserv/academic/integrity.html

Instructor Profile

Since Fall 2016 is my first semester teaching at Boston College I will give a short bio. I am originally a labor economist with a Ph.D. in Economics from University of Pennsylvania (1990). Before Penn I was an economics major at BC from 1978 to 1982. At that time economic issues were front and center – high inflation, Reaganomics, supply-side, the 1982 recession, Paul Volcker, the demise of Keynesianism, budget deficits, deregulation, etc. – and I was very interested.

Following grad school, though, my career veered into money management. Since the mid-1990s I have been the CFO of a hedge fund. Our firm has about $800 million in liabilities (sic, assets). Our strategy is bankrupt and distressed and our portfolios include equities and fixed income, both long and short. My tasks are mainly back office including client service, tax, administration, audit, legal, stock lending, foreign currency, cash management, etc.

Simultaneously I have taught economics courses, primarily monetary and macro courses, at various colleges and universities including currently at Tufts. I have participated with students in activities like the College Fed Challenge, the student run investment fund and senior honors theses. I have extensive personal investing experience, including commodities (primarily financial futures), options, futures options and LEAPs. I think events in monetary and macroeconomics are even bigger today than they were when I was your age. I am working on a new textbook in monetary and macro.
**Calendar and Assignments**

Dates are approximate. All readings and problems are in the custom text unless otherwise specified. Read the pages in each chapter exactly as specified. The page numbers are those of the original text; not the custom text, e.g., the first page of Ch. 1 is p. 2, not p. 22. For the Fed Transcripts read as needed for doing the problem sets.

Also, be aware of Fed FOMC meetings on Sept. 20-21, Nov. 1-2 and Dec. 13-14, and 3Q 2015 GDP (announced Thurs. October 28, 2016 8:30 A.M.)

**Sept.** Introduction: The State of Macroeconomics. Recent history. The idea of unconventional tools.
Ch. 1 What are our goals, and the goal of stability? What are our new tools?
Ch. 1 Appendix
It is 110 pages (plus 17 in the presentations). Peruse and read specific parts as required for P.S. 1 questions

**Sept.**
Ch. 2 Money and the Payments System (brief coverage)
Ch. 3 Financial Instruments, etc. (brief coverage; sometimes just a term in a section.)
Ch. 4 Future Value, Present Value and Interest Rates (brief coverage)

**Oct.**
Ch. 6 pp. 133-141, pp. 142-143 Reading the Bond Page, p. 151 When Russia Defaulted
Ch. 7 pp. 172-173, pp. 180-184, focus on the Yield Curve
Ch. 8 pp. 198-203, Valuing Stocks and the Efficient Market

**Late Oct.**

**MIDTERM**

**Nov.**
Ch. 15 pp. 394-399, other selected pages
Ch. 16 pp. 421-432, pp. 436-439
Ch. 18 pp. 480-485, p. 499, pp. 500-514

**Dec.**
At this point, depending on time and current events, we will discuss topics and use scholarly articles, material from the press or the text. Topics might include: ZIRP, NIRP, Reverse Repos, Macropudential, fiscal policy and debt and deficit, generational economics, etc.
Ch. 20 pp. 553-557
Ch. 21 and Ch. 23 pages to be determined

**Dec.**

**FINAL**