



MACQUARIE UNIVERSITY
School of Economic and Financial Studies

UNIT OUTLINE

ECON844: MONETARY AND FINANCIAL POLICIES

SEMESTER 2, 2003

- I Course requirements**
- II Assessment**
- III Lecture topics**
- IV Lecture guide and references**
- V Essay topics and references**

Dr P C Ip
Senior Lecturer in Economics

I. COURSE REQUIREMENTS

Students should attend all lectures and are required to submit an essay of approximately 3,000 words on one of the topics listed at the end of this Study Guide or on a topic approved by the Lecturer-in-Charge. There is a three-hour final examination. The essay is due on **15 October, 2003**.

In writing the essay, students are judged on the understanding of the theory and empirical works, clarity of exposition, originality in approach and effort put into the research. The essay should be properly structured and divided into sections with appropriate headings. It should include a synopsis, footnotes and references. Students are warned to guard against **PLAGIARISM**. All quotations and ideas must be properly acknowledged. Students should keep photocopies of their essays.

II. ASSESSMENT

| | |
|-------------------|------------|
| Essay | 30% |
| Assignment | 10% |
| Final Examination | <u>60%</u> |
| | 100% |

III LECTURE TOPICS

1. Definition of Money
2. Monetary Targets and Instruments
3. Monetary Policy Indicator Problem
4. Monetary Policy Under Uncertainty
5. Monetary Policy Reaction Functions
6. Rational Expectations and Monetary Policy
7. Control of Monetary Aggregates
8. Monetary Rules Versus Discretion
9. Interest Rate targeting
10. Exchange Rate Targeting
11. Nominal Income Targeting
12. Inflation Targeting

IV. LECTURE GUIDE AND REFERENCES

Textbook:

Handa, J. *Monetary Economics*, London: Routledge, 2000.

Useful Reference Books

Eatwell, J., M. Milgate and P. Newman (eds.) *The New Palgrave: A Dictionary of Economics*, London: Macmillan, 1987.

-----, *The New Palgrave Dictionary of Money and Finance*, London: Macmillan, 1992.

Friedman, B.M. and F. Hahn (eds), *Handbook of Monetary Economics*, Vol. I and II, Amsterdam: North-Holland, 1990.

Green, C.J. and D.T. Llewellyn, *Surveys in Monetary Economics*, Vol. I and II, Oxford: Basil Blackwell, 1991.

Hoover, K.D. *The New Classical Macroeconomics: A Sceptical Inquiry*, Oxford: Basil Blackwell (1988)

*Lewis, M. K. and P. D. Mizen, *Monetary Economics*, Oxford: Oxford U. P., 2000.

McCafferty, S. *Macroeconomic Theory*, N.Y.: Harper & Row, 1990.

McCallum, B.T. *Monetary Economics: Theory and Policy*, N.Y.: Macmillan, 1989.

Mishkin, F. S. and S. G. Eakins, *Financial Markets and Institutions*, N.Y.: Addison-Wesley, 1998.

Scarf, W. M. *Macroeconomics – An Introduction to Advanced Methods*, 2nd ed., Toronto: Dryden, 1996.

Wells, G., *Macroeconomics*, Melbourne: Nelson, 1995.

White, L.H. *The Theory of Monetary Institutions*, Oxford: Blackwell, 1999.

Useful websites:

www.rba.gov.au

www.abs.gov.au

www.bankofcanada.ca

www.bankofengland.co.uk

www.boj.or.jp

www.stls.frb.org

www.ny.frb.org

www.kc.frb.org

1. The Definition of Money

Functions of money
Money and near-moneys
Problems of defining money
Empirical approaches
Divisia monetary aggregates

Belongia, M.T. and J.A. Chalfant, "Alternative Measures of Money As Indicators of Inflation: A Survey and Some New Evidence," *F.R.B. of St. Louis Review*, 72 (Nov/Dec 1990), 20-33.

Bryant, R.C. *Money and Monetary Policy in Interdependent Nations*, Washington, D.C.: Brookings Institution, 1980, Chs. 3, 4, 8, 9.

Friedman, M. and D. Meiselman, "The Relative Stability of Monetary Velocity and the Investment Multiplier in the United States 1897-1958", Commission on Money and Credit, *Stabilization Policies*, Englewood Cliffs, N.J.: Prentice- Hall, 1963, 182-3 and 242-4.

Gurley, J.G. and E.S. Shaw, *Money in a Theory of Finance*, Washington, D.C.: Brookings Institution, 1960, Chapters II, III.

*Handa, J. (2000), Chs.1, 8.

*Laidler, D. "The Definition of Money: Theoretical and Empirical Problems", *Journal of Money, Credit and Banking*, 1, August 1969, 509-25. Reprinted in Gibson and Kaufman, 1971.

*Lewis, M.K. and P.D. Mizen (2000), Ch. 12.

Radcliffe Report, *The Committee on the Working of the Monetary System: Report*, Cmnd. 827, 1959, London: HMSO.

Sayers, R.E. "Monetary Thought and Monetary Policy in England," *Economic Journal*, LXX (December 1960), 710-24.

2. Monetary Targets and Instruments

IS-LM-BP, AD-AS
Instruments and targets
Pros and cons of monetary targeting
Choice of intermediate targets
Controllability of money supply
Control of base money
Credit aggregates

Argy, V., R. Brennan and G. Stevens, "Monetary Targeting: The International Experience", *Economic Record*, 66 (March 1990), 37-62.

Friedman, B.M. "Targets and Instruments of Monetary Policy", in B.M. Friedman and F.H. Hahn (1990), 1185-1230.

Gruen, d., J. Romalis and N. Chandra, "The Lags of Monetary Policy," *Research Discussion Papers 9702*, Sydney: RBA, 1997.

*Handa, J. (2000), Chs. 11, 12, 13.

Holbrook, R. and H. Shapiro, "The Choice of Optimal Intermediate Targets", *American Economic Review Papers and Proceedings*, LX, May 1970, 40-7.

*Lewis, M.K. and P. D. Mizon (2000), Chs. 5, 10.

McCallum, B.T. (1989) Ch. 4.

Mishkin, F. S. and S. G. Eakins (1998), Ch 24.

Modigliani, F. "The Monetarist Controversy: Or Should We Forsake Stabilization Policies?" *American Economic Review*, 67, March 1977, 1-19.

Poole, W. "Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model", *Quarterly Journal of Economics*, 84, May 1970, 197-216.

Tinbergen, J. *On the Theory of Economic Policy*, 2nd edition, Vol. 1, Contributions to Economic Analysis, Amsterdam: North-Holland, 1952.

Wells, G. (1995), Ch. 3.

3. The Monetary Policy Indicator Problem

The transmission mechanism
Lags in monetary policy
Indicators and intermediate targets
Term structure as an indicator

*Brunner, K. and A. Meltzer, "The Meaning of Monetary Indicators" in G. Horwich (Ed.), *Monetary Process and Policy: A Symposium*, Irwin, 1967. Also in W.E. Gibson and G.C. Kaufman (1971), 12-5.

*Carr, J. and L.B. Smith, "A Suggestion for a New Monetary Indicator", *Journal of Monetary Economics*, 1, July 1976, 363-68.

Dotsey, M. "The Predictive Content of the Interest Rate Term Spread for Future Economic Growth," Federal Reserve Bank of Richmond *Economic Quarterly*, 84 (3), (Summer 1998), 31-51.

Edey, M.L. and I.J. Macfarlane, "The Monetary Policy Decision-Making Process in Australia," in Bank of International Settlements, *The Orientation of Monetary Policy and the Monetary Policy Decision-Making Process*, Basle: April 1991.

Gruen, d., J. Romalis and N. Chandra, "The Lags of Monetary Policy," *Economic Record*, 75 (Sept. 1999), 280-94.

*Ip, P. C. "The Yield Curve and Economic Activity," in D-T Nguyen (ed.) *Queensland, Australia and the Asia-Pacific Economy*, Brisbane: Economic Society of Australia (Queensland), (1996), 702-711.

*Lewis, M. K. and P. D. Mizen (2000), Ch. 14.

Mishkin, F. "A multi-country study of the information in the shorter maturity term structure about future inflation," *Journal of International Finance and Money*, 1991, 2-22.

*Saving, T.S. "Monetary Policy Targets and Indicators", *Journal of Political Economy Supplement*, 75, August 1967, 446-56.

4. Monetary Policy Under Uncertainty

Tinbergen's approach
Theil's approach
Theil's certainty equivalence theorem
Quadratic preference functions
One target, one instrument case
Poole's analysis

Brainard, W.C. "Uncertainty and the Effectiveness of Economic Policy", *American Economic Review*, 57, May 1967, 411-25.

*Handa, J. (2000), Ch. 15.

*Lewis, M.K. and P. D. Mizen (2000), Ch. 10.

Macfarlane, I.J. "Monetary Policy in an Uncertain World," *RBA Bulletin*, Nov. 2002,

McCafferty, S. (1990) Chs. 10, 11.

*Poole, W. "Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model", *Quarterly Journal of Economics*, 84, May 1970, 197-216.

*Theil, H. *Economic Forecasts and Policy*, Second Edition, Amsterdam: North-Holland, 1961, Ch. 8.

_____ *Optimal Decision Rules for Government and Industry*, N.Y.: Rand McNally, 1964, Chs. 1 and 2.

Wells, G. (1995), Ch. 3.

5. Monetary Policy Reaction Functions

Theil's reaction function

- a. No uncertainty
- b. With uncertainty

Simultaneous equations bias

Structural model vs reduced form model

Problems using econometric models

*Friedlaender, A.F. "Macro Policy Goals and Revealed Preference", *Quarterly Journal of Economics*, 87, February 1973, 25-43.

Froyen, R.T. "A Test of the Endogeneity of Monetary Policy," *Journal of Econometrics*, 2 (July 1974), 175-88.

Hakes, D.R., "The Objectives and Priorities of Monetary Policy under Different Federal Chairmen," *Journal of Money, Credit and Banking*, 22 (August) 1990), 327-337.

Goldfeld, S.M. and A.S. Blinder, "Some Implications of Endogenous Stabilization Policy", *Brookings Papers on Economic Activity*, 3, 1972, 585-640.

Judd, J.P. and G.D. Rudebusch, "Taylor's Rule and the Fed: 1970-1997", Federal Reserve Bank of San Francisco *Economic Review*, No. 3, 1998, 3-16.

*Lewis, M. K. and P. D. Mizen (2000), Ch. 10.

Smets, F. "Financial-Asset Prices and Monetary Policy: Theory and Evidence" in P. Lowe (1997), 212-237.

6. Rational Expectations and Monetary Policy

Rational expectations
Lucas aggregate supply function
Policy ineffectiveness debate
Econometric policy evaluation
New Classical Economics

Barro, R.J. "Rational Expectations and the Role of Monetary Policy," *Journal of Monetary Economics*, 21 (Jan. 1976), 1-32.

Begg, D.K.H. *The Rational Expectations Revolution in Macroeconomics*, Baltimore: Johns Hopkins U.P., 1982.

Carter, M. and R. Maddock, *Rational Expectations: Macroeconomics for the 80s*, Melbourne: Macmillan Australia, 1985.

*Handa, J. (2000), Chs. 15.

*Lewis, M.K. and P.D. Mizen (2000), Ch. 9.

Lucas, R.E., Jr. "Expectations and the Neutrality of Money", *Journal of Economic Theory*, 4 (April 1972), 103-24.

Lucas, R.E., Jr. "Econometric Policy Evaluation: a Critique", in *The Phillips Curve and Labor Markets* edited by K. Brunner and A. H. Meltzer, *Carnegie-Rochester Series on Public Policy*, 1, 9-46, Amsterdam: North-Holland.

Kantor, B. "Rational Expectations and Economic Thought", *Journal of Economic Literature*, (December 1979), 1422-1441.

Kydland, F.E. and E.C. Prescott, "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy*, 85 (June 1977), 473-91.

Sargent, T. and N. Wallace, "Rational Expectations and the Theory of Economic Policy," *Journal of Monetary Economics*, 2, 1976, 169-83.

Sheffrin, S. M. *Rational Expectations*, Cambridge: Cambridge U.P., 1983.

7. Control of Monetary Aggregates

- Open market operations
- Discount windows
- Techniques of monetary control
- Reserve requirements
- Monetary base control
- Instrument instability

Andersen, L.C. and K.M. Carlson, "A Monetarist Model for Economic Stabilization," in Federal Reserve Bank of St. Louis *Review*, 52 (April 1970), 7-25.

Campbell, f. "The Implemenatation of Monetary Policy: Domestic Market Operations," in RBA, Educational Resource Material, www.rba.gov.au/PunlicationsAndResearch/Education/Implementation_Of_Monetary_Policy.html, 2001.

Grenville, S.A. "The Evolution of Monetary Policy: From Money Targets to Inflation Targets," in P. Lowe (1997), 125-158.

*Handa, J. (2000), Ch. 10.

*Holbrook, R. "Optimal Economic Policy and the Problem of Instrument Instability", *American Economic Review*, 62, March 1972, 57-65.

Macfarlane, I.J. (1998), "Australian Monetary Policy in the Last Quarter of the Twentieth Century," *Reserve Bank of Australia Bulletin*, October, 6-19.

*Lewis, M. K. and P. D. Mizen (2000), Chs. 13, 14.

*Pierce, J.L and T.D. Thomson, "Some Issues in Controlling the Stock of Money", FRB Boston *New England Economic Review*, 1973, 115-36.

Rankin, B. "The Reserve Bank's Domestic Market Operations", *Seminar for Teachers*, Sydney: R.B.A. (1995), 29-37.

Stevens, G. "Monetary Policy in Australia," *Seminar for Teachers*, Sydney, RBA (1995), 5-27.

8. Monetary Rules Versus Discretion

Proponents of monetary rule
Opponents of monetary rule
Statistical tests of various monetary rules
Optimal feedback rules
Rational expectations and monetary policy
Time inconsistency

Dotsey, M., C. D. Lantz and L. Santucci, "Is Money Useful in the Conduct of Monetary Policy?" FRB of Richmond *Economic Quarterly*, 86, 4 (Fall 2000), 23-48.

Fischer, S. "Rules Versus Discretion in Monetary Policy," in B. Friedman and F. Hahn (eds) *Handbook of Monetary Economics*, (1990). 1155-1184.

Friedman, M. *A Program for Monetary Stability*, Fordham University Press, 1960.

*Handa, J. (2000), Ch. 16.

*Kydland, F.E. and E.C. Prescott, "Rules rather than Discretion: The Inconsistency of Optimal Plans", *Journal of Political Economy*, 85, June 1977, 473-91.

Macfarlane, I. J. "Australian Monetary Policy in the Last Quarter of the Twentieth Century," *Economic Record*, 75 (Sept. 1999), 213-24.

McCallum, B.T. (1999) "Recent Developments in the Analysis of Monetary Policy Rules," FRB of St. Louis *Review*, 81 (Nov/Dec 1999), 3 - 12.

*Lewis, M. K. and P. D. Mizen (2000), Chs. 9, 10.

Modigliani, F. "The Monetarist Controversy or Should We Forsake Stabilisation Policies?" *American Economic Review*, 67, March 1977, 1-19.

Morton, w.a. "Human Judgment and Central Banking," *American Economic Review*, XLI (May 1951).

Poole, W. "Monetary Policy Rules?" FRB of St. Louis *Review*, 81 (Mar/Apr 1999), 3 - 12.

Sayers, R.S. *Central Banking After Badgehot*, 1957.

Simons, H.C. "Rules versus Authority in Monetary Policy," *Journal of Political Economy*, XLIV (Feb 1936), 1-30.

*Sargent, T.J. and N. Wallace, "Rational Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule", *Journal of Political Economy*, 83, April 1975, 241-54.

White, L. H. (1999), Chs. 10, 11.

9. Interest Rate Targeting

Interest rate targets
Implementation
Interest rate smoothing

Barro, R. "Interest-Rate Targeting," *Journal of Monetary Economics*, 1989, 23, 3-30.

Goodfriend, M. "Interest Rates and the Conduct of Monetary Policy," *Carnegie-Rochester Conference Series on Public Policy*, 1991, 34, 7-30.

Goodhart, C. "Why do the Monetary authorities smooth Interest rates?" in S. Colignon (ed.), *European Monetary Policy*, London: 1997, Chapter 8, 119-174.

*Handa, J. (2000), Ch. 12.

*Lewis, M.K. and P. d. Mizen (2000), Chs. 10, 14.

Monnet, C. and W. E. Weber, "Money and Interest Rates," F.R.B of Minneapolis *Quarterly Review*, Fall 2001, 2 – 13.

Rudebusch, G. D. "Federal Reserve Interest Rate Targeting, Rational Expectations, and the Term Structure," *Journal of Monetary Economics*, 1995, 35, 2 , 245-274.

10. Exchange Rate Targeting

Target zones for exchange rates
Speculation
Monetary Conditions Index
Critique

Freedman, C. "The Use of Indicators and the Monetary Conditions Index in Canada," in T. J. T. Balino and C. Cottarelli (eds.), *Frameworks for Monetary Stability: Policy Issues and Country Experiences*, Washington: D.C.: IMF Institute and Monetary Affairs Department, 1994.

*Handa, J. (2000), Chs. 11, 18.

Ip, P. C. "The Use of Monetary Conditions Index - A Critical Evaluation", 30th Conference of Economists, Perth, September 2001.

Krugman, P. and M. Miller (eds.), *Exchange Rate Targets and Currency Bands*, Cambridge: Cambridge U.P., 1992.

*Lewis, M. K. and P. D. Mizen (2000), Chs. 8, 15.

Smets, F. "Financial-Asset Prices and Monetary Policy: Theory and Evidence" in P. Lowe (1997), 212-237.

Stevens, G.R. "Pitfalls in the Use of Monetary Conditions Indexes," *Reserve Bank of Australia Bulletin* (August 1998), 34-43.

Tavlas, G. S. "On the Exchange Rate as a Nominal Anchor: The Rise and Fall of the Credibility Hypothesis", *Economic Record*, 76 (June 2000), 183-201.

Williamson, J. and M. Miller, *Targets and Indicators: A Blueprint for the International Coordination of Economic Policy*, Washington, D.C.: Institute for International Economics, 1991.

11. Nominal Income Targeting

Pros and cons
Implementation
Evaluation

Asako, K. and H. Wagner, "Nominal Income Targeting versus Money Supply Targeting," *Scottish Journal of Political Economy*, 39 (May 1992), 167-87.

*Bean, C. R. "Targeting Nominal Income: An Appraisal," *Economic Journal*, 93 (December 1983), 806-19.

Bradley, M.D. and D.W. Jansen, "Understanding Nominal GNP Targeting," Federal Reserve Bank of St. Louis *Review*, 71 (Nov/Dec 1989), 31-40.

Feldstein, M. and J. H. Stock , "Nominal Income Targeting," in N.G. Mankiw (ed.) *Monetary Policy*, Chicago: University of Chicago Press (1994), 7-69.

Frankel, J. and M. Chinn, "The Stabilizing Properties of a Nominal GNP rule," *Journal of Money, credit and Banking*, 27 (May 1995), 318-334.

Groenewold, N. and A. J. Hagger (1998), "Natural-Rate Estimates as a Policy Tool in Australia," *Economic Papers*, 17 (3), September, 72-88.

*Hall, R.E. and N.G. Mankiw, "Nominal Income Targeting," in N.G. Mankiw (ed.) *Monetary Policy*, Chicago: University of Chicago Press (1994), 71-93.

*Handa, J. (2000), Ch. 12.

Kahn, G.a. "Nominal GNP: An Anchor for Monetary Policy," Federal Reserve Bank of Kansas City *Economic Review* (Nov 1988), 18-35.

*Lewis, M. K. and P. D. Mizen (2000), Ch. 10.

McCallum, B.J. "The Case for Rules in the Conduct of Monetary Policy: A Concrete Example," Federal Reserve Bank of Richmond *Economic Review* (Sept/Oct 1987), 10-18.

McNees, S.K. "Prospective Nominal GNP Targeting", An Alternative Framework for Monetary Policy," *New England Economic Review* (Sept/Oct 1987), 3-9.

Taylor, J.B. "What Would Nominal GNP Targeting Do to the Business Cycle?," *Carnegie-Rochester Conference Series on Public Policy*, 22 (1985), 61-84.

12. Inflation Targeting

Rationale and general issues
Design issues
Operational issues
Central bank independence
Country experiences

Artis, M., P. Mizen and Z. Kontolemis (1998), "Inflation Targeting: What Can the ECB Learn from the Recent Experience of the Bank of England," *Economic Journal*, 108 (451), November, 1810-25.

Bean, C. (1998), "The New UK Monetary Arrangement: a View from the Literature," *Economic Journal*, 108 (451), November, 1795-1809. Part 1.

*Bernanke, B.S., *et. al.*, *Inflation Targeting: Lessons from the International Experience*, Princeton: Princeton U.P., 1999.

*Bernanke, B, S. and F. S. Mishkin (1997), "Inflation Targeting: A New Framework for Monetary Policy," *Journal of Economic Perspectives*, 11 (2), Spring, 97-116.

Fortin, P. (1996), "Presidential Address: The Great Canadian Slump", *Canadian Journal of Economics*, XXIX (4), November, 761-787.

Haldane, A.G. (1997), "Designing Inflation Targets," in P. Lowe (1997), 74-112.

*Handa, J. (2000), Ch. 12.

Ip, P. C. "Inflation Targeting - A Critique," *Macquarie Economics Research Papers*, 4/99, Sydney, Macquarie University, February 1999.

Kahn, G.A. and K. Parrish (1998), "Conducting Monetary Policy with Inflation Targets," *Federal Reserve Bank of Kansas City Economic Review*, 83 (3), Third Quarter, pp. 5-32.

Leiderman, L. and L. E. O. Svensson (eds.) *Inflation Targets*, London: Centre of Economic Policy Research, 1995.

Lowe, P. (1997) (ed.) *Monetary Policy and Inflation Targeting*, Sydney: Reserve Bank of Australia.

*Mishkin, F.S. and A. S. Posen (1997), "Inflation Targeting: Lessons from Four Countries," *Federal Reserve Bank of New York Economic Policy Review*, 3 (3), August, 9-110.

*Lewis, M. K. and P. D. Mizen (2000), Ch. 16.

Stevens, G.R. "Inflation Targeting: A Decade of Australian Experience," *R.B.A. Bulletin*, April 2003, .

V. ESSAY TOPICS AND REFERENCES

Research strategy - some of the starter references are given below. You are expected to go beyond these and find more recent publications. An excellent source is recent issues of *Journal of Economic Literature*.

Topic 1 Transparency and Monetary Policy

One of the propositions demonstrated by New Classical Economics (NCE) is that systematic policy has no impact on the real economy. Only unanticipated policy will influence economic activity. Proponents of inflation targeting (IT), however, claim that IT makes monetary policy more transparent and accountable and produce superior economic performance. Can the two points of view be reconciled? Critically evaluate the merits of central bank transparency, accountability, independence and credibility. Should monetary policy in Australia be more or less transparent?

Starter reference:

Thornton, D. L. "Editor's Introduction", *Federal Reserve Bank of St Louis Review*, 84, 4, (July/August 2002), 7-14.

Topic 2. Neutrality of Money

"... in the long run, the central bank has influence over only nominal magnitudes. As a result, the Federal Reserve can be quite explicit about its ultimate objectives - price stability and the maximum sustainable growth in output that is fostered when prices are stable." (Greenspan, 2002, p.6)

Critically evaluate the above comment by the Chairman of the Federal Reserve, Alan Greenspan. Is money neutral in the long run? Distinguish between "neutrality" and "super-neutrality". If monetary policy can affect output and employment, commodity prices, interest rates and exchange rates in the short run (say, one to two years), why can't it affect economic activity in the long run (say, 10 to 15 years) when the long run is nothing but an aggregation of the short run?

Starter references:

Handa, J. (2000), Ch. 26.

Greenspan, A. "Chairman's Remarks," *Federal Reserve Bank of St Louis Review*, 84, 4, (July/August 2002), 5-6.

Lucas, R. E., Jr. "Nobel Lecture: Monetary Neutrality," *Journal of Political Economy*, 104, (Aug. 1996), 661-82.

Tobin, J. "Money and Economic Growth", *Econometrica*, 33 (Oct. 1963), 671-84.

Topic 3. Pre-emptive Strikes

The Coalition of the Willing invaded Iraq in March 2003. The avowed aim was to take pre-emptive strikes against the Saddam regime which was reported to possess weapons of mass destruction (WMD).

Should the Reserve Bank of Australia tackle perceived inflationary threats in the future by taking pre-emptive strikes? Is the military analogy appropriate when a central bank formulates its monetary policy? Analyse the case for and against taking pre-emptive strikes to achieve the goals of price stability and sustainable economic growth.

Examine the record of "pre-emptive strikes" adopted by the Reserve Bank of Australia.

Starter references:

Bernanke, B. S. and M. Woodford, "Inflation Forecasts and Monetary Policy," *Journal of Money, Credit and Banking*, 29, 4, Part II (Nov 1997), 653-84.

Clarida, r. G. and M. Gertler, "The Science of Monetary Policy: A New Keynesian Perspective," *Journal of Economic Literature*, 37 (4) (Dec 1999), 1661-707.

Brash, D. T. "Reserve Bank Forecasting: Should We Feel Guilty?" in www.rbnz.govt.nz/speeches/sp981021.htm

Gavin, W. T. and R. J. Mandal, "Forecasting Inflation and growth: do Private forecasts Match those of Policymakers?" *FRB of St Louis Review*, 83, 3 (May/June 2001), 11-19.

Macfarlane, I.J. "Monetary Policy in an Uncertain World," *RBA Bulletin*, Nov. 2002,

Romer, C. D. and D. H. Romer, "Federal Reserve Private Information and the Behavior of Interest Rates," *American Economic Review*, 90 (3) (June 2000), 429-57.

Sephton, P. "Forecasting recessions: Can We do Better on MARS?" *FRB of st Louis Review*, 83 (2) (Mar/Apr 2001), 39-49.

Svensson, L. E. O. "Inflation Forecast Targeting: Implementing and Monitoring Inflation Targets," *European Economic Review*, 41 (6) (June 1997), 1111-46.

Woodford, M. "Pitfalls of Forward-Looking Monetary Policy," *American Economic Review*, 90 (2) (May 2000), 100-4.

Further references may be found by looking up recent issues of *Journal of Economic Literature* and by conducting a catalogue search using Macquarie University Library website.

Macquarie University

School of Economic and Financial Studies

UNIT: ECON 844 Monetary and Financial Policies

ASSIGNMENT: Essay

DUE DATE : Wednesday 15 October 2003

LENGTH: 3,000 - 3,500 words

CONTRIBUTION TO FINAL
ASSESSMENT: 30%

INSTRUCTION: Submit to ERIC

STUDENT NAME: _____
(Surname) (Other Names)

STUDENT NUMBER:

ESSAY TOPIC NUMBER:

TITLE OF ESSAY:

ESSAY GRADE:

MARKER'S COMMENTS:

DEFINITION OF PLAGIARISM

Plagiarism involves using the work of another person and presenting it as one's own. Any of the following acts constitutes plagiarism unless the source of each quotation or piece of borrowed material is clearly acknowledged:

- (a) copying out part(s) of any document of audio-visual material (including computer-based material);
- (b) using or extracting another person's concepts, experimental results, or conclusions;
- (c) summarising another person's work;
- (d) in an assignment where there was collaborative preparatory work, submitting substantially the same final version of any material as another student.

Encouraging or assisting another person to commit plagiarism is a form of improper collusion and may attract the same penalties.

STATEMENT TO BE SIGNED BY STUDENT:

1. I have read the definition of plagiarism that appears above.
2. In my essay I have carefully acknowledged the source of any material which is not my own work.
3. I am aware that the penalties for plagiarism can be very severe.

Name: _____

Signature: _____

Student Number: _____

THIS PAGE MUST BE COMPLETED AND ATTACHED TO THE ESSAY