College of Commerce
Division of Economic and Financial Studies
Economics Department

UNIT OUTLINE

ECON842: PRINCIPLES OF MONETARY ECONOMICS

Second Semester, 2007

Lecturer: Dr Stephen Kirchner
Students in this unit should read this unit outline carefully at the start of semester. It contains important information about this unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

TEACHING STAFF: Dr Stephen Kirchner (s.kirchner@optusnet.com.au). I would like to thank the previous lecturer, Joshua Kirkwood, for permission to adapt his lecture notes.

CLASSES

There will be one three hour lecture on Tuesday evenings commencing at 6.00pm in E5A 118.

UNIT WEB PAGE

- The web page for this unit can be found at:

- Lecture notes will be available on this page weekly:

TEXTBOOKS

Readings will be assigned from:


ASSESSMENT

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<tr>
<td>In-class presentation</td>
<td>10%</td>
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<tr>
<td>Essay (due 9 October)</td>
<td>30%</td>
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<td>Final Examination</td>
<td>60%</td>
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In-Class Presentation

Each student is required to give an in-class presentation of 10-15 minutes duration on a journal article of their choice selected from the course readings. Any of the articles with an (*) is eligible. A schedule for presentations will be worked out with students at the beginning of the course.

The presentation should include a handout of no more than two pages summarising the presentation. Students are encouraged to use overhead slides/Powerpoint as part of their presentation.

The presentation should give a brief summary of the chosen article, highlighting its main points and findings. Students should then evaluate the paper as though they were preparing a referee’s report for the editor of economics journal, highlighting the strengths and weaknesses of the paper and its contribution to the literature. (Hint: the author(s) may say something about the strengths and weakness of their paper and its contribution, so you may build on what the author has to say). Feel free to draw on your knowledge from other courses in discussing the article.
Essay

Due date: The essay must be submitted with the attached coversheet in class on Tuesday 9 October 2007. Late submissions will be penalised five marks per day late, unless the University grants special consideration.

Word limit: 3000 words, not including references. Marks will be deducted for essays exceeding the word limit.

Presentation: The essay must be printed on one side of the paper only in 12 point and at least 1.5 spaced. You should attach the coversheet supplied and sign the plagiarism declaration. Keep a spare copy of the essay.

Research strategy: Key references are given below. You are encouraged to go beyond these and find relevant published literature using the EconLit or other databases. Do not reference the lecture notes - reference the original sources contained in the notes. References to Wikipedia are not acceptable. Marks will be deducted for essays referencing Wikipedia.

Essay writing technique: the essay should be properly structured, with an introduction, conclusion and section headings. References can be either footnotes, endnotes, or you may use the Harvard citation system. You should include a bibliography at the end of your paper listing all sources cited in the essay. URLs are NOT acceptable as references or in the bibliography: cite the actual article, not the web address! Marks will be deducted for references containing only URLs. You should use equations, diagrams and charts were appropriate: this can help you economise on the word limit. Use equation editor in MS Word to handle Greek letters, sub-/superscripts etc. Equations, charts and diagrams should be numbered for ease of reference.

Essay topic and references:

Interest Rate Rules and the Zero Bound on Nominal Interest Rates in a New Keynesian Model

What role do interest rate rules play in the New Keynesian macroeconomic models favoured by monetary policymakers? Under what circumstances do these models become unstable, resulting in a deflationary spiral? What strategies might policymakers adopt to address the zero bound problem for nominal interest rates?


UNIT: ECON 842 Principles of Monetary Economics
ASSIGNMENT: Essay
DUE DATE: Tuesday 17 October 2006
LENGTH: 3,000 words
CONTRIBUTION TO FINAL ASSESSMENT: 30%
INSTRUCTION: Bring to class
STUDENT NAME: ___________________________________________
(Surname) (Other Names)
STUDENT NUMBER: __________________________________________
ESSAY TOPIC: _______________________________________________
ESSAY GRADE: _______________________________________________
MARKER’S COMMENTS:

(Remember to attach and sign the plagiarism declaration)
PLAGARISM

The University defines plagiarism in its rules: ‘Plagiarism involves using the work of another person and presenting it as one’s own.’ Plagiarism is a serious breach of the University’s rules and carries significant penalties. You must read the University’s practices and procedures on plagiarism. These can be found in the Handbook of Undergraduate Studies or on the web at: http://www.student.mq.edu.au/plagarism/

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

UNIVERSITY POLICY ON GRADING

The Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e. the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should receive similar results.

It is important that you realize that the policy does not require that a minimum of students be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see


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 and student number: _____________________________________________

Signature: __________________________________________________________
WEEK 1 AND WEEK 2: ROLE OF MONEY IN THE ECONOMY; CLASSICAL AND KEYNESIAN MONETARY THEORY.

• Role of money in an economy
• Monetary standards
• The classical theory of money
• Patinkin’s critique of the classical theory and the real balance effect
• The Arrow-Debreu model
• OLG model
• Money in the utility function
• Keynes’ monetary economics


WEEK 3: RATIONAL EXPECTATIONS; RULES VERSUS DISCRETION IN MONETARY POLICY; POLICY DESIGN

- The rational expectations hypothesis
- The policy ineffectiveness proposition
- Rules versus discretion

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

Handa, J. (2000), Chs. 12, 15, 16.


WEEK 4: THE MONEY SUPPLY AND INTEREST RATE DETERMINATION IN AUSTRALIA

- Money supply in Australia
- Interest rate determination and central bank operating procedures
- Framework for Australian monetary policy
- Inflation targeting


WEEK 5: INTEREST RATE RULES IN NEW KEYNESIAN MODELS AND THE ZERO BOUND PROBLEM

- Taylor-type interest rate rules
- New Keynesian macroeconomic models
- Model stability and the zero bound problem
- Solutions to the zero bound problem


WEEK 6 AND WEEK 7: THE DEMAND FOR MONEY

- The Classical quantity theory
- The Cambridge equation
- Baumol's inventory-theoretic approach
- Keynes' liquidity preference theory
- Tobin's risk aversion theory of liquidity preference
- Friedman's modern quantity theory of money
- Buffer stock money
- Identification problems
- Stock adjustment and distributed lag models

Lewis, M. K. and P. D. Mizen (2000), Ch. 5, 6, 7, 11.

Handa, J. (2000), Chs, 2, 4, 5, 6, 7, 9.


WEEK 8: THEORY OF INTEREST RATES

- The Classical theory
- The loanable funds (LF) theory
- Keynes' liquidity preference (LP) theory
- The Fisher effect
- Empirical tests of the Fisher effect

Handa, J. (2000), Ch. 20.

Lewis, M.K. and P.D. Mizen (2000), Ch. 5.


WEEK 9: THE TERM STRUCTURE OF INTEREST RATES

- The expectations theory
- The liquidity preference theory
- The market-segmentation theory
- Rational expectations and the term structure
- US and Australian studies

Lewis, M.K. and P. D. Mizen (2000), Ch. 5.


WEEK 10: RICARDIAN EQUIVALENCE

- Government budget constraint
- Ricardian Equivalence Theorem
- Australian and international evidence


WEEK 11: MARKET-DETERMINED MONETARY SYSTEMS

- Critique of central banking
- Historical episodes of free banking
- Commodity and non-commodity private money
- Competitive payments systems without base money
- Black-Fama-Hall system, new monetary economics, legal restrictions theories


