

MACQUARIE UNIVERSITY

Division of Economic and Financial Studies



UNIT OUTLINE
2007

ECON 844
MONETARY AND FINANCIAL POLICIES

Unit homepage: www.econ.mq.edu.au/courses/econ844

Unit convenor:

A/Professor Kim Hawtrey (khawtrey@efs.mq.edu.au)

ECON 844

Monetary and Financial Policies

Welcome

Hi, and thanks for choosing to join us in this unit. I hope you will find it stimulating, and also highly useful for your career.

We are very enthusiastic about this class. This semester our pledge to you is to do our very best to:

- *communicate clearly what is expected so that you feel comfortable*
→ *example ... no maths calculations in the test or exam*
- *create a good learning atmosphere so that you feel free to explore ideas*
→ *example ... easy-to-follow lecture slides*
- *use a variety of teaching techniques that help you learn*
→ *example ... case studies*
- *give constructive feedback so you know how you are travelling*
→ *example ... we will make written comments on your assignment*

In summary, we are genuinely interested in assisting your progress, and wish you every success in ECON844 this semester.

Kim Hawtrey

1. ABOUT THIS UNIT

Monetary policy and financial forces form a highly influential part of today's economic landscape.

The aim in this course is to talk the language of monetary policy, identify the key issues, and equip students with core skills for a career in the financial sector. Whilst the unit uses the latest techniques and includes a number of case studies, the approach is non-technical.

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything is unclear, please consult with the teaching staff in the unit.

2. TEACHING STAFF

Staff for this unit:

Dr Sean Turnell

(E4A426, tel 98508493, STURNELL@efs.mq.edu.au)

A/Professor Kim Hawtrey

(E4A433, tel 98508504, khawtrey@efs.mq.edu.au)

Enquiries about the subject matter of particular lectures can be directed to the lecturer concerned. General enquiries about administration and assessment can be made to the unit convenor, A/Prof Hawtrey. It is best to use email in the first instance.

3. CLASSES

Classes comprise a three-hour block (with hourly 10-minute breaks).

The timetable for classes can be found on the University website at <http://www.timetables.mq.edu.au>.

4. UNIT WEB PAGE

The web page for this unit can be found at:

<http://www.econ.mq.edu.au/courses/econ844>

5. LEARNING OUTCOMES

Upon successful completion of this unit you will:

- understand how monetary policies work
- gain insight into decisions facing managers in a central bank
- know how to measure and manage policy risks
- be able to evaluate alternative theories and perspectives
- judge the direction of future interest rate policy

In addition to these discipline-related learning objectives, the unit will develop the following generic skills:

- critical analysis skills
- communication skills

6. **READING**

Students should focus on the material presented in lectures. The exam will be based on lecture notes.

If some students wish to read beyond the lecture notes in selected areas to improve their understanding, then the readings below are provided.

A textbook for the unit is:

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

Other useful references (optional) are:

Lewis, MK and PD Mizen, *Monetary Economics*, Oxford University Press 2000
White, LH, *The Theory of Monetary Institutions*, Oxford: Blackwell 1999

Useful websites

Reserve Bank of Australia:	www.rba.gov.au
Bank for International Settlements:	www.bis.org
Australian Bureau of Statistics:	www.abs.gov.au
Australian Financial Review:	www.afr.com
Australian Prudential Regulation Authority:	www.apra.gov.au
Yahoo – Finance	finance.yahoo.com

7. **TEACHING AND LEARNING STRATEGY**

Summary: The unit is taught using the approach known as 'involved learning'. This seeks to provide a range of learning experiences including interactive lecture input, plus online resources, plus a class test, plus a research essay, leading to the final examination:

- while there are no formal tutorials in this course, each lecture session will incorporate applications and practical exercises to aid understanding of concepts
- in week 4 a class test will help you practice multiple choice and short answer skills
- in week 10 an in-class essay will develop your research and writing skills

The Final Examination will test your success in the unit.

Lectures: You are expected to participate in all lectures. Lecture notes can be downloaded prior to class each week from the WebCT ECON867 homepage: www.econ.mq.edu.au/courses/econ844

Assessment: Assessment for ECON844 is based on a class test, assignment and final exam, weighted as shown below:

Class test	10%
Assignment	20%
Examination	70%

The **Class test** (10%) will be held in **week 4**, in class at the usual time. It will comprise 20 multiple choice questions (time allowed will be 45 minutes). It will cover the material from weeks 1-3 of the course.

The **Assignment** (20%) is an essay that is written in class in **week 10** at the usual lesson time. Time allowed will be one (1) hour.

To do the "in-class essay" you need to prepare ahead of time. You are given the topic in advance (see below) and are expected to study thoroughly by reading most of the set readings and planning your essay outline beforehand. One page (one-side only) of hand-written notes can be brought into the classroom.

The assignment TOPIC can be found on page 7 of this unit outline.

After staff processing, marked assignments will be returned to students in Week 13 of semester (your assignment can be collected at ERIC).

The **Examination** (70%) will be two hours in duration and will consist of a mix of multiple choice and long-answer questions. The examination period is in June. The only exception to not sitting the exam at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about the procedure is available at:

<http://www.reg.mq.edu.au/Forms.APSCon.pdf>.

IMPORTANT: students must pass the final exam to pass ECON867.

8. PLAGIARISM

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 policies on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or at: <http://www.student.mq.edu.au/plagiarism/>.

9. UNIVERSITY POLICY ON GRADING

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 the Unit (ie the total of your marks for each assessment item) may not be the same as the SNG that you receive. Under the Senate guidelines, results may be scaled to ensure that there is comparability across the University, and across different enrolment years. The process of scaling does not change the order of marks among students. For more information on the policy see: <http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc>

10. 2007 UNIT CALENDAR: ECON844

Week no.	Date	Topic	Handa chapter	Staff
1	26 Feb	Definition of money	1,8	ST
2	5 March	Monetary targets/instruments	11-13	ST
3	12 March	Control of money aggregates	10	ST
4#	21 March	Class test	na	ST
5	26 March	Open economy macro policy I	19	ST
6	2 April	Open economy macro policy II	19	ST
----- (Easter break) -----				
7	23 April	Monetary policy issues	15	ST
8	30 April	Policy reaction functions	..	KH
9	7 May	Rules versus discretion	16	KH
10*	14 May	In-class essay	na	KH
11	21 May	Interest/E rate targeting	11,18	KH
12	28 May	Nominal income targeting	12	KH
13	4 June	Inflation targeting	12	KH

Class test: week 4

* Assignment: week 10 (to be written in class)

11. ASSIGNMENT TOPIC: 'Inflation targeting'

DATE: In class, week 10

NATURE OF ASSIGNMENT: In-class Essay

Essay Question:

Critically evaluate inflation targeting and discuss the issues raised by inflation targeting, including: what is the rationale for inflation targeting? what design and operational issues are involved? how does inflation targeting relate to central bank independence? how successful has inflation targeting been?

References (all available via MU Library Reserve)

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

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

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

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

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

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

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

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