Postgraduate Unit of Study Outline

Department of Economics

ECON844
Monetary and Financial Policies

Semester 1, 2008

Mondays 6-9pm

(starting March 3)

Unit of Study Outline

This unit examines a number of issues concerning monetary theory and policy. We begin with an analysis of empirical regularities of money, output, prices and interest rates, with particular reference to Australia. This will lead to the development of the key models of monetary economies in use today. These are invariably based on what is known as “dynamic stochastic general equilibrium models”. These models were first developed in the context of real business cycle models with flexible prices. The policy relevant ones include a variety of nominal rigidities, and they are often referred to as “New Keynesian” models. The workhorse version has 3 equations (dynamic IS relation, a modern Phillips curve, and an interest rate rule), which has the virtue that it can be easily manipulated both analytically and numerically. We will examine monetary and fiscal policies interactions. Fiscal policy can impose significant intertemporal restrictions on the outcomes for monetary policy. A key issue is how to determine optimal monetary policy, and we will examine how one thinks about this. We will study how monetary policy is implemented, in particular the question of inflation targeting, and we will look at how one might measure the behaviour of the RBA.
1. Teaching Staff
Unit of Study Coordinator:

<table>
<thead>
<tr>
<th>Name</th>
<th>Professor Jeffrey Sheen</th>
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<tbody>
<tr>
<td>Building and Room</td>
<td>E4B 430</td>
</tr>
<tr>
<td>Phone number</td>
<td>9850 7287</td>
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<tr>
<td>Email</td>
<td><a href="mailto:jsheen@efs.mq.edu.au">jsheen@efs.mq.edu.au</a></td>
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<tr>
<td>Consultation hours</td>
<td>Wednesday 2-4pm</td>
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2. Unit of Study Aims
This elective unit in the postgraduate programs in the Division of Economic and Financial Studies, ECON844, will help provide you with the necessary tools to analyze current issues in monetary theory and policy.

3. Unit of Study Learning Goals
An understanding of the macroeconomic implications of monetary policy is essential for effective managerial decision-making. Making informed decisions about business activity, whether by a consumer or a firm, requires an understanding of the interactions between the key economic variables in the national and international economies.

   In this subject, the intention is:
   - To understand the what drives the relationships between macroeconomic economic indicators (eg inflation, growth, interest rates, stock market indices) that should be part of every manager’s information set;
   - To provide a framework for understanding modern dynamic stochastic general equilibrium models; and
   - To enable managers to use this understanding to improve decision-making.

4. Assessment

   4.1. Types and due dates of assessment

<table>
<thead>
<tr>
<th>Type</th>
<th>Weighting</th>
<th>Submission date</th>
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<tbody>
<tr>
<td>1. 1 term paper</td>
<td>25%</td>
<td>See 4.2 below</td>
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<tr>
<td>2. Mid-term test</td>
<td>30%</td>
<td>Monday 7 April 6-8pm.</td>
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<tr>
<td>3. End-of-term examination</td>
<td>45%</td>
<td>TBA (Exam period 18 June – 29 June)</td>
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<tr>
<td>Total</td>
<td>100%</td>
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4.2. **Explanation of assessment**

- **One term paper** due at the last lecture of the unit. Details to be provided later.

- **One mid-term test** (two hours) on Monday 7 April 2007, 6-8pm in TBA. [If you have a clash with another unit at this time, contact your lecturer.] The mid-semester test will be closed-book. It will involve multiple choice questions, essay questions or small problems based on topics studied in the course.

- **One end-of-term exam** (two hours) in June (time and place to be announced). The end-of-semester exam will be closed-book. It will involve multiple choice questions, essay questions or small problems based on ALL topics studied in the course. Questions will primarily come from the second-half of the course, but not exclusively.

4.3. **Academic honesty**

Deliberate breaches of academic honesty constitute academic misconduct. These breaches include:

- Plagiarism
- Fabrication of data
- Recycling previously submitted material
- Engaging someone else to complete an assessment on one’s behalf
- Misconduct during supervised assessments

The penalties for academic misconduct may include:

- A mark of zero on the assessment
- A fail grade in the unit of study
- Additional assessment (including an unseen exam)
- Reference of the matter to the University Registrar

Issues concerning breaches of academic honesty may be dealt with either through the process of determining academic results in a unit of study, or, in the most serious cases, by invocation of misconduct procedures.

4.4. **Assessment policy and procedures**

4.4.1. **Feedback on assessment**

The mid-semester test will be discussed briefly in the lecture after it has been returned.

4.4.2. **Penalties for late assessments**

If the essay is not submitted before the expiry time, you will not get marks for it.

4.4.3. **Special Consideration and additional assessment**

- **Special Consideration**

Special consideration will be granted where a student misses an assessment due to illness or misadventure. **Special consideration will not be granted where a student attempts an assessment,** unless the student can demonstrate that their serious illness or misadventure began after the start of the test or exam. If you experience serious illness or misadventure that would impact on your performance, you should miss the assessment and email your lecturer as soon as possible.

4.4.4. **Student appeals: Academic and Administrative**

A student may appeal against a mark or grade for either a single assessment, or the final assessment for a whole unit of study. Students are encouraged to consult with their unit of study coordinator in the first instance.

A student may appeal against an administrative decision.
5. Classes

Lectures and tutorials: Lectures are at 6pm-9pm on Mondays starting March 3. Though not compulsory, you should attend every lecture. Each week, you will be expected to have read the relevant chapters of the text and any additional readings, and to have practised the questions at the end of the relevant chapter of the text. If you have any questions about these, you can post them on Blackboard (on the “Discussion Board”).

6. Prescribed Text


7. Response to Student Feedback

The Discussion Board on Blackboard is a useful tool, and should be used. At the end of the unit, a course evaluation questionnaire will be distributed. Your suggestions will be welcomed. If you have any problems or suggestions during the semester, please contact your lecturer.

8. Communication Policies

8.1. Blackboard and other electronic sites

Lecture outlines along with all handouts, announcements about classes or assessment and other communications will be available on the Faculty's Blackboard site. If you are enrolled properly in the unit through the University, you will be enrolled automatically on the Blackboard site. You are expected you to check the site regularly. The week’s lecture slides will be available on Blackboard on the Sunday evening (if not earlier) before the Monday lecture.

9.1 Consultation and Electronic Contact

Jeffrey Sheen will be available for consultation in E4B 430 on Wednesdays from 2-4pm or by appointment.

Topic 1

*Empirical regularities of money, prices, output and interest rates*
Walsh Chapter 1

Topic 2

*Basic monetary models*
Walsh Chapters 2 (2.1-2.3), 3 (3.1-3.3)

Topic 3

*Money and public finance, optimal inflation*
Walsh Chapters 4 (4.1-4.4)

Topic 4

*Real business cycle theory, the New Keynesian model with nominal rigidities.*
David Romer, Advanced Macroeconomics, McGraw Hill, 3rd edition, 2006, Chapter 4
Walsh Chapter 5 (5.1-5.3)

Topic 5

*DSGE models with nominal rigidities*
Walsh Chapter 5 (5.4-5.5), Chapter 10 (10.2)

Topic 6

*Optimal monetary policy*
Walsh Chapters 8 (8.1-8.2), 9 (9.1-9.3.1), 11
“Reflections on Monetary Policy 25 Years After October 1979” – read comments by Ben S. Bernanke, Alan S. Blinder, and Bennett T. McCallum

Topic 7

*Monetary policy in practice; inflation targeting*