

Economics 304 - Monetary Economics
Winter 2013 Course Outline

Contact Information:

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Course Time, Location, Office Hours and Teaching Assistant:

Time and location: TuTh, 2:30 – 3:50pm, Hagey Hall 1120
Office hours: Wed, 10:00 – 1:00p or by appointment
Teaching assistant: TBA

1 Course Description

This course explores the role that money, financial markets and institutions, central banks and governments play in our economy. The course begins with an overview of the role and importance of financial institutions and financial markets. The second part of the course will focus on the functions and importance of money using simple models of money and an overview of monetary policy and central banking with a special focus on the Bank of Canada and the Federal Reserve Bank. The third part of the course is devoted to the study of the importance and role of banks in our financial system with a focus on agency problems. The course concludes with a study of financial crises, with a special focus on the recent financial in the US and the sovereign debt crisis in Europe. In addition to covering the lecture material, every two weeks, we will devote 15-20 minutes of class to a current and important topic in monetary/financial economics.

2 Prerequisites

The prerequisites for this course are ECON 201, 202; one of ECON 211, MATH 106/125, 109, 115, 116, 117, 118, 119, 128, 136, 138, 146, 148. Students are assumed to have been exposed to basic calculus and linear algebra during their 200's courses.

3 Textbook and Readings

In this course, I will be using the following textbook

- (i) Mishkin, Frederic, S., and Apostolos Serletis. 2010. *The Economics of Money, Banking and Financial Markets: Fourth Canadian Edition*, Pearson Canada

In addition to the textbook, I will also provide lecture notes and other reading materials. All the lecture notes and reading materials will be accessible from LEARN and will be posted before the relevant lecture. The readings are an integral part of the course and students are expected to cover them. In addition to the textbook and lecture materials, students are strongly encouraged to read

the business press to keep up with the daily developments in the macro economy and financial markets. *The Economist*, the *Financial Times*, the business sections of the *Globe and Mail* and the National Post and the *Monetary Policy Report* of the Bank of Canada are good sources to keep up with current financial events.

Although the math that I will be using in this course is not difficult, I will, however use it relentlessly. If you feel that you have a weak background in mathematics, I recommend reviewing the chapters on linear, matrix algebra, calculus and optimization in the book you used for Econ 211 or any of the Math prerequisite for this course.

4 Lecture Topics

- (i) Introduction and overview of the role of money, financial markets, financial intermediaries and asset management firms (ch 1, 2, 3)
 - An introduction to the financial system, financial assets and financial institutions
 - What is money?
 - Empirical facts about money
 - Why is money special?
- (ii) Determinants of interest rates and asset prices (ch 4, 5, 6, 7)
 - The theory of interest rates
 - The term structure of interest rates
 - Risk/return, asset pricing models and the efficient market hypothesis
- (iii) The Bank of Canada and the conduct of monetary policy (ch 15, 16, 17, 18)
 - The functions and role of the Bank of Canada and the Federal Reserve Bank
 - The central bank balance sheet and the money supply process
 - How does the Bank of Canada set monetary policy?
 - The goal of monetary policy in Canada and inflation targeting
- (iv) Money and inflation (ch 21, 26)
 - The Quantity Theory of money
 - The Phillips curve and the inflation-output trade-off
 - The costs of inflation
- (v) The monetary transmission mechanism (ch 24, 25)
 - The various monetary transmission channels
 - A simple model of AD and AS to explain the monetary transmission mechanism
- (vi) The economics of banking and financial markets (ch 8)

- Matching borrowers and savers
 - Asymmetric information, adverse selection, moral hazard
- (vii) Investment banks and the shadow banking system (ch 11)
- Leverage
 - The shadow banking system
 - Systemic risk
- (viii) Financial crises (ch 9)
- Financial crises through time
 - The financial crisis of 2007-2009

5 Course Website

We will be using LEARN (<https://learn.uwaterloo.ca/>). You will need your University of Waterloo ID to log in. In addition to lecture materials, I will be posting announcements, all practice problems, readings and other materials on LEARN. Please check LEARN regularly.

6 Evaluation

- Final exam (2h30mins) at the end of the term scheduled by the registrar (worth 45%). The final exam is cumulative.
- Two assignments **due in class** on Thursday February 7 and Thursday March 7. Assignment 1 will be worth 6% and assignment 2 will be worth 9%.
- Two midterms (Each midterm is worth 20%) held on Thursday February 14 and Thursday March 14.

7 Missed Tests and Assignments

- (i) Assignments have to be handed on time. If you miss the deadline, you will receive a mark of zero. No exceptions are allowed.
- (ii) No make up midterm will be offered if you miss one.
- (iii) Students who miss a midterm for medical reasons have **one week** to submit the relevant medical certificate (original documents and not a photocopy or a scanned copy).
- (iv) Students who do not have a relevant medical certificate or who do not hand in the medical certificate on time will receive a mark of zero on any missed test.
- (v) The weight of the missed midterm will be automatically transferred to the final exam.

- (vi) If you miss the scheduled final exam, you **MUST PETITION** the department within five calendar days to receive permission to write the departmental deferred examination. Failure to follow these procedures will automatically result in a grade of 0 being assigned for the missed deferred final examination.

8 Policy on Remarking of Tests

All regrade requests must be submitted to me within one week of receiving the grade in question. In your request, you must clearly indicate the reasons why you want your midterm or your assignment to be regraded. Note that if you want your midterm and assignment re-graded, I will remark the entire piece of work. Your grade may go up, down or stay the same as a result of this.

9 Note on avoidance of academic offences

All students registered in the courses of the Faculty of Arts are expected to know what constitutes an academic offence, to avoid committing academic offences, and to take responsibility for their academic actions. When the commission of an offence is established, disciplinary penalties will be imposed in accord with Policy #71 (Student Academic Discipline).

For information on categories of offences and types of penalties, students are directed to consult the summary of Policy #71, Student Academic Discipline at:

(http://www.adm.uwaterloo.ca/infoucal/UW/policy_71.html.)

If you need help in learning how to avoid offences such as plagiarism, cheating, and double submission, or if you need clarification of aspects of the discipline policy, ask your TA or course instructor for guidance. Other resources regarding the discipline policy are your academic advisor and the Undergraduate Associate Dean.

Students who believe that they have been wrongfully or unjustly penalized have the right to grieve; refer to Policy #70, Student Grievance at:

(<http://www.adm.uwaterloo.ca/infosec/Policies/policy70.html>.)

10 Appeals

A student may appeal the finding and/or penalty in a decision made under Policy #70 - Student Petitions and Grievances (other than regarding a petition) or Policy #71 - Student Discipline if a ground for an appeal can be established. Read Policy #72 - Student Appeals:

<http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>

Academic Integrity website (Arts): http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html

Academic Integrity Office (UW): <http://uwaterloo.ca/academicintegrity/>

11 Note for students with disabilities

The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.