

School of Economics and Finance

MOFI 404 MONETARY ECONOMICS B

Trimester ONE 2008

COURSE OUTLINE

Contact Details

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Class Times and Room Numbers

Class Time: Tuesdays, 12:40-15:30pm.

Location: Railway Station (RWW) 127.

Prerequisite: MOFI 303 or ECON 305

Final Examination Period: June 9th to 25th, 2008.

Course Content - MOFI 404

Week	Topic
1-3	Monetary Models
4	Monetary Transmission Mechanisms
5-6	Money in Credit/Financial Markets
7	Banking Theory
8	Inflation
9	Money and Public Finance
10	Discretionary Policy and Time Inconsistency
11	Money and Interest Rates
12	Students' Presentations

Course Objectives

The objective of MOFI 404 is to provide an in-depth understanding of modern monetary theory. No doubt, Monetary Economics overlaps with Macroeconomics in some more general areas. However, Monetary Economics is more distinct in emphasizing price level determination, inflation, and the role of monetary policy. MOFI 404 takes the infinite horizon approach to monetary economics instead of overlapping generation approach, which has been covered in MOFI 303. That is because infinite-horizon approach is very helpful in highlighting some key issues of monetary theory and policy, such as generating links between monetary and real economic phenomena.

We first consider three basic monetary economic models: *the money-in-utility (MIU) model*, *the transaction model*, and *the monetary search-theoretic model*, which focus on the essential features of money. While the first two models employ a neoclassical growth framework to study monetary phenomena, the third model has a build-in monetary essentiality. It is important to learn the features of each model in order to understand the advantages of each in addressing the issues of Monetary Economics.

The topics, *Monetary Transmission Mechanisms* and *Money and Credit*, discuss the channels of how monetary policy affects the real economy. Primarily, a monetary policy operates through interest rates and exchange rates. Credit channels provide an alternative view arising from imperfect information. Following discussions on imperfect information, *Banking Theory* reviews the role of money in banking industry. More specifically, incentive problems of an individual may cause the possibility of bank runs.

Inflation attempts to show the short-run effects of monetary policy shocks. Lucas's misperception model is an important piece in this attempt to provide insights of money-output link. Then the proceeding topics focus on strategic monetary policy: *Money and Public Finance*, and *Discretion Policy and Time Inconsistency*, followed by *Financial Markets and Monetary Policy*, which examines various ways of modelling financial market imperfections in monetary models, such as net worth, contracts, and financial constraints...etc.

The intended learning outcomes for students who complete this course are:

1. The insights of important issues in Monetary Economic Theories.
2. The ability to analyse inflation, interest rates, interaction between monetary and real economic phenomena.
3. The skills to evaluate a monetary policy and/or a combination of monetary and fiscal policies. For example, the effect of monetary and/or fiscal policy on consumption, banking industry, financial market...etc.
4. The skills to extend Monetary Economic models by modifying assumptions
5. The ability to solve relative complex Monetary Economic Problems.

Expected Workload

It is estimated that the workload will average out at approximately 12 hours per week.

- Class attendance: 2 hours/week
- Reading and Reviewing: 8 hours/week
- Assignments: 2 hours/week on average.

Readings

Chapters from the following books will be prescribed for this course:

Required:

**Walsh, Carl E. (2002), *Monetary Theory and Policy*, Cambridge, MIT Press.

Optional:

Blanchard, Olivier Jean, and Stanley Fischer (1989), *Lectures in Macroeconomics*, Cambridge, The MIT Press.

Romer, David (2003), *Advanced Macroeconomics*, New York, McGraw-Hill/Irwin.

Mankiw, Gregory and David Romer (1991), *A New Keynesian Economics*, Cambridge, MIT Press.

Other readings of the course will be from research journals. A detailed reading list will be distributed in class and posted on the Blackboard.

Assessment Requirements

There will be 12 lectures during the trimester. Students are expected to read the relevant literature before each meeting and to take part in class discussion.

20% for two assignments (due March 26th and May 20th at 12:40pm in class)

20% for two reports (due April 1st, and May 27th, at 12:40pm *before* class, in PDF format via email).

5% for class presentation on May 27th in class.

55% for final examination (June 9th to 26th, 2008)

Mandatory Course Requirements

Two assignments and two reports must be submitted ON TIME.

Communication of Additional Information

Additional information will be posted on Blackboard through announcements.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building on the ground floor (EA005). This counter is the first point of contact for :

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to www.victoria.ac.nz/home/about/policy/students.aspx

For information on the following topics, go to the Faculty's website www.victoria.ac.nz/fca under Important Information for Students:

- Academic Grievances
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means *no cheating*. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times. Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website: www.victoria.ac.nz/home/studying/plagiarism.html

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz