

School of Economics and Finance

MOFI 404 MONETARY ECONOMICS B

Trimester One 2009

COURSE OUTLINE

Contact Details

Lecturer and Course Coordinator: Dr. Chia-Ying Chang

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Office Hours: Wednesdays 10:30-11:20am and by appointment

Trimester Dates (examination period included):

March 2nd (Monday) – July 1st (Wednesday), 2009.

Class Times and Room Numbers

Class time: Wednesdays, 3:40-5:30pm

Location: Railway Station (RWW) 127.

Prerequisite: MOFI 303 and/or ECON 305.

Withdrawal dates: Information available via

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawlsrefunds.aspx>

Course Content

Week	Topic
1-2	Monetary Models
3	Monetary Transmission Mechanisms
4	Banking Theory
5-6	Money in Credit/Financial Markets
7	Inflation
8	Money and Public Finance
9	Discretionary Policy and Time Inconsistency
10	Money and Interest Rates
11	Asset Pricing/Student presentation
12	Students' Presentations

Course Learning 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. to demonstrate a grasp of important issues in Monetary Economic Theory.
2. to analyse inflation, interest rates, and the interaction between monetary and real economic phenomena.
3. to evaluate the effects of a monetary policy and/or a combination of monetary and fiscal policies
4. to extend Monetary Economic models by modifying assumptions
5. to solve relative complex Monetary Economic Problems.

Expected Workload

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 meetings 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 [April 8th \(Wednesday\)](#) and [June 3rd \(Wednesday\)](#) at 03:40pm in class)

20% for two reports

(due [April 1st \(Wednesday\)](#) and [May 27th \(Wednesday\)](#), by 03:40pm *before* class, in PDF format via email).

5% for class presentation on [June 3rd \(Wednesday\)](#) in class.

55% for final examination (June 12th (Friday) – July 1st (Wednesday), 2009)

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period: June 12th (Friday), 2009 - July 1st (Wednesday), 2009

Penalties

Any late assignment will be awarded a grade of zero (unless a VALID medical certificate issued by licensed medical centre is presented or a valid form of proof that an extension is warranted).

Mandatory Course Requirements

Two assignments and two reports must be submitted to meet examination requirements

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.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting mis-referencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. *At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin.* You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

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: including the work of others will not be considered plagiarism as long as the work 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 penalised 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 or phone (04) 463 5842.