

Alok Johri  
Fall 2008  
Course Outline

## **Economics 741 : An Introduction to Monetary Economics**

### Course Description

This is a semester long masters-level course devoted to the discussion of some key issues in monetary theory and policy. The course assumes that students have little or no knowledge about dynamic optimization techniques which they will acquire concurrently in Economics 723. As a result, topics that use modern macroeconomic methods will be discussed at the end of the semester as opposed to the beginning. Instead the course opens with a discussion of some policy related issues using models which are not in the Dynamic General Equilibrium framework. We then discuss a non traditional view which suggests that monetary policy has real effects through the credit channel rather than through the amount of money in the economy. Next we review key evidence on the connections between money and inflation and money and economic fluctuations. We end the course with an introduction to dynamic general equilibrium models with money. The main textbook for this course will be Carl Walsh: Monetary Theory and Policy, 1998 MIT Press or the 2<sup>nd</sup> edition.

### Evaluation

The evaluation of your performance in this part of the course is made up of two components.

1. Your mid-term and final examinations worth 40% each of the grade,
2. class discussion (20%). These marks can be obtained by demonstrating that you are actively engaged in the course on a regular basis and not just before exams.

### Topics

1. Introduction: Issues in Monetary Theory
2. Issues in monetary policy: Time inconsistency and rules vs. discretion
3. Models of the credit channel
4. Empirical work on basic monetary issues  
An Introduction to Vector Auto Regressions.
5. DGE models with money

### Reading List

Some suggested textbook treatments of the topics covered in this course

1. Carl Walsh: Monetary Theory and Policy, 1998 MIT Press or the 2<sup>nd</sup> edition.
2. Chapters in Tom Cooley (ed.): Frontiers of Business Cycles
3. Chapters 6,9 in David Romer: Advanced Macroeconomics
4. Chapters 4,8 in Blanchard and Fischer: Lectures in Macroeconomics, 1988, MIT Press.
5. Chapters in Handbook of Monetary Economics Vol II

Background Readings for course: I assume you know this material from Econ 723 by the time

we come to topic 5.

Basics of Dynamic Programming

Sargeant: Ch1, Dynamic Macro Theory

Sargeant and Lundqvist : Recursive Economic Dynamics, Ch2.

Readings for topic 2 : Time Inconsistency and Monetary Policy

\*Walsh ch 8

Romer Ch 9

Readings for topic 3: The Credit Channel

Walsh ch 7

Readings for topic 4: Evidence on Money, Output, Interest Rates and Prices

\*Chapter 1, Walsh

Leeper, Sims and Zha (1996) Brookings Papers in Economic Activity.

King and Watson (1996) Review of Economics and Statistics.

Readings for topic 5: DGE models: Only an introduction.

\*Walsh Ch 2, 3, 5

L&S Ch 17

Romer Ch 6

B&F Ch 4, 8

T. Cooley: Frontiers of Business Cycle Research.

Chari-Kehoe McGratten 2000

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Others, to be announced.