Monetary Economics  
July 2014

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Course description

This year I’m going to teach Monetary Economics in two parts. I’ll spend the first part of the course on a fairly detailed study of the “new Keynesian” approach to macroeconomics and the implications of this framework for the use of monetary policy and fiscal policy to stabilise business cycle fluctuations. I’ll spend the second part of the course on topics in banking and financial intermediation that I think are useful for understanding the financial crises of 2007-2009 and the resulting global recession.

For completeness, here’s the official blurb, which I wrote for a much earlier version of the course:

An advanced introduction to modern monetary economics. Covers topics such as neo-classical monetary theory; price rigidities; interest rates, inflation targeting and central banking; rules versus discretion in monetary policy; microeconomic foundations of monetary economics. Both theoretical and empirical issues will be emphasised. Open economy aspects of monetary economics will be covered where appropriate.

Course material

There is no required text, but you will probably want to make sure you have access to the following:


This is a streamlined introduction to the new Keynesian approach to monetary economics covered in the first part of the course. The problem sets in the first part of the course are often closely based on problems in this book.
The second part of the course will be based on various journal articles and working papers (see below). But as background reading, you might also enjoy:


I will post copies of the journal articles and working papers and other course materials to the LMS.

**Assessment**

The grade for this course will be based on:

<table>
<thead>
<tr>
<th>Task</th>
<th>Due date</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Problem set #1</td>
<td>in class, Thursday August 7th</td>
<td>5%</td>
</tr>
<tr>
<td>Problem set #2</td>
<td>in class, Thursday August 28th</td>
<td>5%</td>
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<tr>
<td>Problem set #3</td>
<td>in class, Thursday September 11th</td>
<td>5%</td>
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<tr>
<td>Problem set #4</td>
<td>in class, Thursday September 25th</td>
<td>5%</td>
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<tr>
<td>Problem set #5</td>
<td>in class, Thursday October 9th</td>
<td>5%</td>
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<tr>
<td>Problem set #6</td>
<td>in class, Thursday October 23rd</td>
<td>5%</td>
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<tr>
<td>Midsemester exam</td>
<td>take home, due in class, Tuesday October 7th</td>
<td>0 or 20%</td>
</tr>
<tr>
<td>Final exam</td>
<td>exam block</td>
<td>50 or 70%</td>
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**Problem sets (30 marks).** There will be six problem sets over the course of the semester that test your understanding of class material. The problem sets can be done in groups subject to the following rules: All members of a group submit a single solution and will be given the same mark. No more than four students may make up a group. Students may choose to work and hand in an assignment on their own. No two groups may hand in the same assignment.

**Midsemester exam (0 or 20 marks).** There will be an optional take-home midsemester exam based on Part I of the course.

**Final exam (50 or 70 marks).** The final exam will be held in the exam block. The final will be cumulative, covering both Part I and Part II of the course.

**Timetable**

Lectures:

- Tuesdays  12:00–1:30pm  Alan Gilbert–Theatre 1
- Thursdays 12:30–2:00pm  Old Geology–Theatre 1

Review session: to be scheduled, if sufficient demand.
**Part I: New Keynesian Monetary Economics**

**Lectures 1–3 (beginning July 29).**


Reading:

- Gali (2008), chapters 1 and 2

Reminder: problem set #1 due in class Thursday August 7th, based on lectures 1–3.

**Lectures 4–7 (beginning August 7).**


Reading:

- Gali (2008), chapter 3

Reminder: problem set #2 due in class Thursday August 28th, based on lectures 4–7.

**Lectures 8–10 (beginning August 21).**


Reading:

- Gali (2008), chapters 4 and 5

Reminder: problem set #3 due in class Thursday September 11th, based on lectures 8–10.
Lectures 11–14 (beginning September 2).


Readings:


Reminder: problem set #4 due in class Thursday September 25th, based on lectures 11–14.

Lectures 15–16 (beginning September 16).


Reading:


Reminder: optional take-home mid-semester exam due in class Tuesday October 7th, based on Part I of the course.

**Part II: Frictions in Banking and Financial Intermediation**

Lecture 17 (September 23).


Readings:

Lecture 18 (September 25).

Bank runs, old and new. Liquidity mismatch. The multiple equilibria problem. The run on repo.

Reading:


Reminder: problem set #5 due in class Thursday October 9th, based on lectures 17–18.

After the ‘break’ we will spend several lectures on macro implications of financial market frictions. In addition to the specific readings below, I will draw extensively on:


Lecture 19 (October 7).


Lecture 20 (October 9).


Lecture 21 (October 14).

*Credit rationing.* Asymmetric information and credit rationing. Lemons problems. Volatility and collateral.


Lecture 22 (October 16).


Reminder: problem set #6 due in class Thursday October 23rd, based on lectures 19–22.

Lectures 23–24 (beginning October 21).


(and other readings to be announced)

Reminder: final exam is cumulative, covering both Part I and Part II of the course.