



# Monetary Economics 771/871

DEPARTMENT OF ECONOMICS  
STELLENBOSCH UNIVERSITY



## Module Outline 2022

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Appointments: online or in person  
(when I am on campus) by request
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Appointments: in-person (Room 508)  
or online by request
- Internal moderator:  
DR DAWIE VAN LILL
- Test date: 29 August 2022  
Essay due: 14 October 2022  
Exam date: TBA

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# 1 Outcomes

Monetary economics studies the role of money and monetary authorities in a modern economy. We approach the topic in two sections: (i) monetary theory, and (ii) monetary policy.

The aim of Part I is to the focus is to provide students with a solid understanding of monetary theory. The lectures cover the core theory of monetary economics, considering how the economic problem is solved without money (lecture 1), introducing money into the model (lecture 2), inflation (lecture 3), the Phillips curve (lecture 4) and an introduction to modeling the role of banks (financial intermediaries) (lecture 5).

In Part II of the course, we will focus more on monetary policy (although this is clearly not neatly separated from monetary theory). We will begin by reviewing historical theory and experience from the Great Inflation of the 1970s, which was instrumental in the development of the consensus model for monetary policy before the Global Financial Crisis (lecture 6). This will be followed discussions of the Global Financial Crisis (lecture 7), the politics of monetary policy and inflation targeting (lecture 8) and then the coordination between monetary and fiscal policy (lecture 9). In lecture 10 we will have a panel discussion, titled: The contested role of central banks looking forward. Monique Reid, Hylton Hollander and Pierre Siklos (Canadian monetary economist) will lead the discussion, but we hope you will actively be able to participate, given the lectures that preceded the session. In the final lecture of Part II (lecture 11), we will consider one element of monetary models that have received strong criticism in the wake of the Global Financial Crisis (although this criticism was certainly not new).

# 2 Assessment

There will be one essay, a mid-term test, and a final exam. The dates and the calculation of the final mark (FM) for the module are as follows:

## Dates

Test: 29 August 2022

Essay: due 14 October 2022

Exam: TBA

## Weights in FM

Test: 40% (120 minute exam)

Essay: 20%

Exam: 40% (120 minute exam)

The *essay* topics will be made available at the first lecture. There will be a few essay topics to choose from, with a limited number of spaces, so registration for the essay topics is important (a link to a google document will be made available during the first lecture).

Part I of the course will be examined in the mid-semester *test*. If a student misses the test, they will automatically get a second chance to be examined on part I of the course in the exam period (no medical certificates are required). If a student achieves less than 40% for the test, the student is also given a second opportunity to re-write in the exam period and the higher mark will then replace the previous failing grade. Students who achieve greater than 40% but wish to improve their mark are welcome to rewrite on part I as well. But the exam opportunity is then the final opportunity to write on the material in Part I.

A supplementary exam will be scheduled for students who are either sick in the exam (with a medical certificate) or who qualify for a rewrite. All supplementary exams are written in a condensed time frame (i.e. within one calendar week). The postgraduate examination rules are as follows:

Exam mark			
	$\geq 50\%$	$< 40\%$	$\geq 40\%$
Final Mark	$< 50\%$	Fail	Pass
		Fail	Supp*

\*Supplementary exam, with the possibility of improving the final mark to a maximum of 50%

### 3 Reading material

There is no one text that covers all of the topics for this course. The readings for each session are listed on the course outline below. However “Modeling Monetary Economies” (4th or 5th edition) by Bruce Champ, Scott Freeman and Joseph Haslag will be used for the theory part of the course. Copies of Champ, Freeman and Haslag are available on short loan in the library and copies have been ordered by van Schaik Bookstore and Protea Bookstore.

- Champ, B., Freeman, S. & Haslag, J.H. 2022 [2016]. *Modeling monetary economies*. Fifth [Fourth] Edition. ed. New York, NY: Cambridge University Press. Available at:

short loan from SU library

*(Note that the fourth edition combines Chapters 1 and 2 and therefore lags the fifth edition in numbering by one chapter.)*

## 4 Lectures

Lectures will mostly be presented on Mondays at 09h00–11h00 in Schumann 225. PART I of the course will be presented by Dr Hollander and PART II will be presented by Prof Reid. Please check SUNLearn for further changes regarding the mode of lectures (in-person or online) and dates. The preparation required for each of the sessions is stipulated in the module outline below. Thorough preparation is essential.

## 5 Outline

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### PART I - MONETARY THEORY

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#### 5.1 Solving the economic problem without money - 18 July

- Champ et al. (2022) Chapter 1 - The Economy and the Planner's Solution
- Champ et al. (2022) Chapter 2 - Equilibrium Trade in the Economy without Money

#### 5.2 The nature of money and a simple model thereof - 25 July

- Champ et al. (2022) Chapter 3 - A Simple Model of Money
- Champ et al. (2022) Chapter 4 - Barter and Commodity Money

### **5.3 Inflation - 01 August**

- Champ et al. (2022) Chapter 5 - Inflation

### **5.4 The Phillips Curve - 08 August**

- Champ et al. (2022) Chapter 7 - Price Surprises
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### **Open Week - 15 August**

- Wrap up, Exercise(s), Q&A
- 

### **5.5 An introduction to modelling the role of banks - 22 August**

- Champ et al. (2022) Part II Banking, Chapter 8 - Capital
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### **Test on Part I - 29 August**

- 09h00–11h00 (i.e., during lecture slot)
  - 120 minutes
  - 100 marks
  - All of Part I covered
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### **Recess - 05 September**

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## PART II - MONETARY POLICY

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### **5.6 An introduction to the history of macroeconomic thought - 12 September**

**1970s – 2007/2008: How did we reach the pre-GFC consensus**

Required reading

- TBC.

Recommended reading

- TBC

### **5.7 Global Financial Crisis: Is inflation targeting dead? - 19 September**

Required reading

- TBC.

Recommended reading

- TBC

### **5.8 The politics of monetary policy and inflation targeting - 21 September (Wednesday)**

**Time inconsistency & central bank independence**

Required reading

- TBC.

Recommended reading

- TBC

## **5.9 The coordination between monetary and fiscal policy - 26**

### **September**

Required reading

- TBC.

Recommended reading

- TBC

## **5.10 The contested role of central banks looking forward - 28**

### **September (Wednesday)**

**Financial stability, Inequality, Climate change, Digital Currencies ...**

**Are central banks overburdened?**

Required reading

- TBC.

Recommended reading

- TBC

## **5.11 Modelling Expectations - 03 October**

**The rational expectations debate**

Required reading

- TBC.

Recommended reading

- TBC

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## **Free week to complete essays - 10 October**

- Essays due 14 October.

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## **5.12 Part I Recap and Q&A - 17 October**

- For students doing the supplementary exam

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**Lectures end**

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