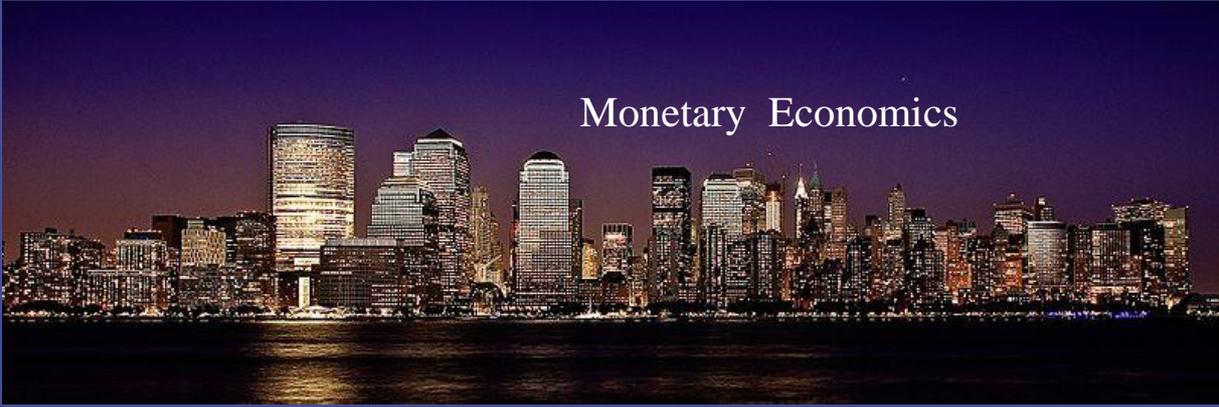


# Monetary Economics



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## Internal moderator:

## DR. HYLTON HOLLANDER

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## Important Dates:

Test: 31 Aug 2020  
(in the evening)

Essay Due:  
19 Oct 2020  
12:00

Exam: Date TBA

## Outcomes

Monetary economics studies the role of money and monetary authorities in a modern economy. We approach the topic in two sections: (i) monetary policy with specific application to the international financial crisis and its legacy, and (ii) monetary theory.

The aim of lectures 1 to 5 (Part I) is to study the role of monetary authorities in the run-up to, unfolding of, and legacy of the international financial crisis. In addition, we will consider the interaction between the price and financial stability objectives of a central bank. This part of the course opens with the role of monetary authorities in the financial crisis, focusing on the consensus model of monetary economics (lecture 1) and specifically the consensus on monetary policy and asset prices (lecture 2). This is followed by the role of monetary policy in the run-up to the crisis and the response of monetary authorities to the crisis (lecture 3). Lectures 4 and 5 consider the legacy of the financial crisis for monetary policy, in terms of regulation (lecture 4) and the interaction between monetary policy and financial stability (session 5).

In Part 2 of the course (lectures 6-10), the focus is on providing students with a solid understanding of monetary theory. The lectures cover the core theory of monetary economics, considering the nature of money (lecture 6), the role of expectations in monetary economics (lecture 7), the process of inflation (lecture 8), the Phillips curve (lecture 9) and an introduction to modeling the role of banks (financial intermediaries) (lecture 10).

## Assessment

There will be one essay, a continual assessment mark, a mid-term test and a final exam. The final mark for the module will be determined as follows:

Essay: 30 marks  
Continual assessment: 30 marks  
Test and Exam: 40 marks (90 minute exam)  
The total is 100 marks

The **essay** topics will be made available at the first lecture. There will be two 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). More details to follow on the course webpage.

There will be **continuous assessment** of students' progress throughout the semester. Each lecture, one of the prescribed readings will need to be reviewed. These written reviews should be a maximum of 500 words long. The lecturer will choose ONE of these reviews to grade from PART 1 of the course and ONE from PART II of the course, but students will not be told upfront which will be graded. The academic articles that need to be reviewed weekly are the ones in bold print for each date in the reading list below. These reviews are due by 14:00 on the day of the relevant lecture and must be submitted on Turnitin. It is recommended that students write the review before class to ensure they can submit on time as late submissions will be penalised by 20% per day late (or part thereof). Given that the review can be handed in early, there will be no excuses accepted. If a student does not hand in the review that is graded, the student will be awarded 0.

In addition, each student will be required to give one brief presentation to the class (**maximum 5 minutes – so about 3 slides**), where the student will be asked to consider a question related to one of the academic articles the class had to review. These questions are designed to encourage students to read the academic articles critically and to engage meaningfully with the material. Since the questions will differ in nature, we cannot give a generic list of expectations about how to answer them – you are welcome to contact the relevant lecturer when preparing your presentation if you have any questions. This year we ask the students responsible for the presentations to create a short video recording of their presentations and email them to the lecturer by the night before the lecture. The short video will be played in class rather than asking the student to leave their seat to address the class.

A link to a google form will be provided during the first lecture, where the schedule for the presentations is provided. It will have details about the presentation topics. Each student is required to register on the list in a first come, first served basis. We are aware that some students will not be certain in the first weeks of the semester whether they intend to do the full course, but we encourage those that are confident they wish to do the course to please register for the earlier slots. There is plenty of incentive to do so as the essays and tests of both this course and those of the other courses in the programme tend to be scheduled later in the semester. Dawie will also be available to assist those presenting in the first lecture.

The aim of the reviews and presentations is to encourage students to engage with the prescribed material and to be prepared for each lecture in a deeper manner. Students will get plenty of feedback on their efforts through the combination of lecturer grading of the 2 reviews and class discussions around the reviews presented by the student 'on duty'. Given that the entire class will have written a review for the day, we hope to have good interaction during the presentation.

The grade for the continual assessment will be awarded as follows:

- 10% for review 1
- 10% for review 2
- 10% for the presentation of your individual article

In addition, the lecturer can allocate up to 3 extra marks to the continual assessment mark for particularly insightful questions or comments by students in class. The continual assessment mark can, however, not go above 30/30 (ie 100%).

Finally, we are aware that the continual assessment adds to the pressure weekly, so we have compensated by reducing the weight on the essay and test/exam (which will be 90 mins instead of 120 mins long). In addition, we do believe that the continual assessment will mean that you are more prepared for the formal evaluation.

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.

Part II of the course is examined during the **exam** period, and a supplementary exam provides the second opportunity for those that fail. Together, the test and exam will count for 40% of a student's final grade (20% each).

## 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*" (4<sup>th</sup> edition) by Bruce Champ, Scott Freeman and Joseph Haslag (CUP, 2016) will be used extensively in the theory part of the course. A copy of Champ, Freeman and Haslag is available on short loan in the library and copies have been ordered by van Schaik Bookstore and Protea Bookstore. Podcasts from the EconTalk library (can be downloaded through iTunes or at [www.econtalk.org](http://www.econtalk.org)) and Macro Musings (download through SoundCloud) have also been assigned.

## Lectures

The lectures will be presented at **### in room ###**. The preparation required for each of the sessions is stipulated in the module outline. Thorough preparation is essential.

# PART I

## Session 1

Tuesday 28 July 2020; 8:30-10:30

Dawie van Lill

The consensus model of monetary policy:  
An introduction to the history of  
macroeconomic thought

### Required reading

- Goodfriend, M. (2007). "How the World Achieved Consensus on Monetary Policy." *Journal of Economic Perspectives* 21(4): 47-68.
- Woodford, M. (2009). "Convergence in Macroeconomics: Elements of the New Synthesis." *American Economic Journal: Macroeconomics* 1(1): 267-279.
- Bernanke, B.S. (2013). "A Century of Central Banking: Goals, Frameworks, Accountability." *Journal of Economic Perspectives*, 27(4), 3-16.

### Recommended reading

- Woodford, M. (1999). "Revolution and Evolution in Twentieth-Century Macroeconomics".
- Mankiw, G. N. (2006). "The Macroeconomist as Scientist and Engineer." *Journal of Economic Perspectives* 20(4): 29-46.
- Mankiw, G. N. and Reis, R. (2017). "Friedman's Presidential Address in the Evolution of Macroeconomic Thought".

### Important articles to read at least once in your life...

- Friedman, M. (1968). "The Role of Monetary Policy." AER Presidential Address.
- Lucas, R, E. (1980). "Methods and Problems in Business Cycle Theory." *Journal of Money, Credit and Banking* 12 (4).

## Session 2

Tuesday 4 August 2020; 8:30-10:30

Dawie van Lill

Asset prices in the consensus model  
(macro-financial linkages)

### Required reading

- Bernanke, B. and M. Gertler (1999). "Monetary Policy and Asset Price Volatility." *Economic Review (4th quarter)*: 17-51.
- Blinder, A. S. (2008). Two bubbles, two paths. *New York Times*, 15 June 2008. New York.
- Claessens, S. and Kose, M. A. (2018). "Frontiers of Macrofinancial Linkages." *BIS Papers* No 95.

### Recommended reading

- Vickers, J. (1999). *Monetary Policy and Asset Prices*, Speech Given by John Vickers, Chief Economist and Member of the Monetary Policy Committee, Bank of England, 22 September 1999.
- Cochrane, J. H. (2017). "Macro-Finance" *Review of Finance* March 2017, 945 – 985.

## Session 3

Tuesday 11 August 2020; 8:30-10:30

Dawie van Lill

The role of monetary policy in the  
run-up to the crisis and the policy  
response to the crisis

### Required reading

- Du Plessis, S.A. (2012) *Collapse*. In Van Beek, U., & Wnuk-Lipinski, E., (eds.). *Democracy under stress. The global crisis and beyond*. Berlin: Barbara Budrich Publishers
- Gorton, G. and Metrick, A. (2012). "Getting up to speed on the Financial Crisis: A One-Weekend-Reader's Guide"
- Additional lecture notes will be provided for this session

## Session 4

Tuesday 18 August 2020; 8:30-10:30

Dawie van Lill

Financial stability and monetary policy

### Required reading

- Haldane, A. (2012). The dog and the Frisbee, Paper Presented at the Federal Reserve Bank of Kansas City's Jackson hole Conference in September 2012.
- **Hollander, H. and van Lill, D. J. (2019). "A review of the SARB's financial stability policies" Working Paper.**

### Recommended reading

- Admati, A. R., P. M. DeMarzo, M. F. Hellwig and P. Pfleiderer (2012). Fallacies, Irrelevant Facts, and Myths in the discussion of Capital Regulation: Why Bank Equity is Not Expensive. Stanford, CA., Graduate School of Business, Stanford University, mimeograph.
- Leeper, E. M. and Nason, J. M. (2014). "Bringing Financial Stability into Monetary Policy". CAMA Working Paper 72.
- Claessens, S (2014). "An Overview of Macroprudential Policy Tools". IMF Working Paper 214.
- IMF Financial Stability Review October 2017 and April 2018

### Podcast

- 2017 LSE Public Events: Tobias Adrian. Assessing Global Financial Stability: Where do we stand?

## Session 5

Tuesday 25 August 2020; 8:30-10:30

Dawie van Lill

The future of monetary policy

### Required reading

- Rogoff, K. (2017). "Dealing with Monetary Paralysis at the Zero Bound" Journal of Economic Perspectives, 31(3), 47-66.
- **Borio, C. and Gambacorta, L. (2017). "Monetary policy and bank lending in a low interest rate environment: diminishing effectiveness?" BIS Working Paper 612.**
- Greenlaw, D., Hamilton, J.D., Harris, E.S., and West, K.D. (2018). "A Skeptical View of the Impact of the Fed's Balance Sheet".
- van Lill, D. J. (2018). "Balance Sheet Policies: A Primer" Stellenbosch Working Paper Series (forthcoming).

### Recommended reading

- Jordan, T. (2016). "Monetary Policy using Negative Interest Rates: A Status Report".
- Borio, C. and Zabai, A. (2016). "Unconventional monetary policies: a re-appraisal" BIS Working Paper 570.
- Borio, C. and Hofmann, B. (2017). "Is monetary policy less effective when interest rates are persistently low?" BIS Working Paper 628.

## PART II

### Session 6

Tuesday 1 Sept 2020, 8:30-10:30

(Monique Reid)

The nature of money and a simple model

#### Required reading

- Champ and Freeman: chapters 1 and 2
- **Friedman, M., (1992). Money Mischief. Episodes in Monetary History. New York, Harcourt Brace & Company, chapter 2**

#### Recommended reading

- Friedman, M., (1992). Money Mischief. Episodes in Monetary History. New York, Harcourt Brace & Company, chapters 1 & 10
- J. P. Smit, J.P., Buekens, F. and Du Plessis, S. (2016). Cigarettes, dollars and bitcoins – an essay on the ontology of money. *Journal of Institutional Economics*, 12, pp 327-347.

### Session 7

Tuesday 8 Sept 2020, 8:30-10:30

(Monique Reid)

Expectations in monetary models

#### Required reading

- McCallum, B. T.: (1989). *Monetary Economics*. New York, Macmillan Publishing Company, chapters 7 and 8.
- **Coibion, C, Gordnichenko, Y and Kamdar, R. (2018). The formation of expectations, inflation and the Phillips curve. *Journal of Economic Literature*. Vol 56(4): 1447 – 1491.**

#### Recommended reading

- Sousa, R and Yetman, J. (2016). Inflation expectations and monetary policy. Bank for International Settlements chapters, in: Bank for International Settlements (ed.), *Inflation mechanisms, expectations and monetary policy*, volume 89, pages 41-67.

### Session 8,

TBC

(Monique Reid)

Modelling the process of inflation

#### Required reading

- Champ and Freeman: chapter 3
- **Mohr, P. (2008). "On inflation." *South African Journal of Economics*, 76(1): 1-15**

#### Recommended reading

- Fuher, J. (2011). *Handbook of monetary economics*, 3A, edited by Friedman, B and Woodford, M. Chapter 9: inflation persistence
- Romer, D.H. (2006), *Advanced macroeconomics* (3rd edition). Boston, McGraw-Hill, section 10.9 (short loan)

### Session 9,

TBC

(Monique Reid)

The Phillips curve

#### Required reading

- Champ and Freeman: chapters 5 and 9
- **Mankiw, N.G., (2001). The inexorable and mysterious tradeoff between inflation and unemployment, the *Economic Journal*, 111(May): 45-61**
- Ball, L and Mazumder. (2019). A Phillips Curve with Anchored Expectations and Short-Term Unemployment. *Journal of Money, Credit and Banking*, Vol. 51, No. 1 (February 2019).

#### Recommended reading

- International Monetary Fund (2013). "The Dog That Didn't Bark: Has Inflation Been Muzzled or Was It Just Sleeping?" Chapter 3 in World Economic Outlook, April.
- Coibion, O, and Gorodnichenko, Y. (2015). "Is the Phillips Curve Alive and Well after All? Inflation Expectations and the Missing Disinflation." American Economic Journal: Macroeconomics, 7(1): 197-232.
- Friedman, M. (1968). "The Role of Monetary Policy," American Economic Review, vol. 58 (March), pp. 1-17. (electronic access)

**Session 10,  
TBC  
(Monique Reid)**

**Required reading**

- **Champ and Freeman: chapters 6 and 7**

**An introduction to modeling the role of banks**