ECON844

Monetary and Financial Policies

S2 Evening 2017

Dept of Economics

Contents

Disclaimer

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General Information

Unit convenor and teaching staff
Unit Convenor
Geoffrey Kingston
geoff.kingston@mq.edu.au
Contact via geoff.kingston@mq.edu.au
E4A 411
3-4pm Monday

Credit points
4

Prerequisites
ECON633

Corequisites

Co-badged status

Unit description
This unit examines a number of issues in monetary theory and policy. We begin with a refresher survey of the workhorse models in macroeconomics – ISLM, ASAD – and develop these for intertemporal modelling. Issues in monetary and fiscal policy design are then discussed, particularly in regard to the global financial crisis of 2008–2009. We study the key models of monetary economies in professional use today. They are based on what are known as dynamic stochastic general equilibrium (DSGE) models. These models are simulated in class to help understand how they respond to shocks like the global financial crisis.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at https://www.mq.edu.au/study/calendar-of-dates

Learning Outcomes

On successful completion of this unit, you will be able to:

Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.

Construct a framework for understanding modern dynamic stochastic general equilibrium models.

Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

General Assessment Information

Should you have serious and unavoidable situations that prevent you to complete your assessment tasks, please consult the `disruption to studies' policy for instructions. (http://students.mq.edu.au/student_admin/manage_your_study_program/disruption_to_studies/)

Late submissions will result in a reduction of 10% of the total mark for each day, up to three days. The assessment will be marked as zero if it cannot be submitted within three days after the deadline.

Assessment Tasks

Name	Weighting	Hurdle	Due
1. Mid Semester Examination	20%	No	11 September (6pm)
2. Review essay	20%	No	10/10/17
3 Final examination	60%	No	To be advised

1. Mid Semester Examination

Due: **11 September (6pm)**
Weighting: **20%**

One-hour exam on 11 September, 6pm in our lecture room.

On successful completion you will be able to:
• Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.
• Construct a framework for understanding modern dynamic stochastic general equilibrium models.
• Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

2. Review essay

Due: **10/10/17**
Weighting: **20%**

Your review essay will consist of a summary and appraisal of any of the "extra reading" articles

listed in the unit schedule below. These articles will be posted on iLearn. Your review should not exceed 1600 words in length, and should be at least 20% appraisal.

On successful completion you will be able to:

- Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.
- Construct a framework for understanding modern dynamic stochastic general equilibrium models.
- Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

3 Final examination

Due: **To be advised**
Weighting: **60%**

This examination will contain both short-answer questions and essay-type questions. The essay-type questions allow scope for choice.

On successful completion you will be able to:

- Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.
- Construct a framework for understanding modern dynamic stochastic general equilibrium models.
- Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

Delivery and Resources

Required and Recommended Texts and/or Materials

For the first part of the course, we will use selected chapters from:

Olivier Blanchard & Jeffrey Sheen Macroeconomics Pearson, 4th Australasian edition, 2013

The fourth edition has a lot of material that will be directly relevant to the unit – in particular on building the foundation of our models.

For the rest of course, we will connect with selected chapters from:

Jordi Gali, Monetary Policy, Inflation and the Business Cycle, Princeton Press, Second edition 2015

Michael Wickens Macroeconomic Theory Princeton Press, 2008

Carl E Walsh, Monetary Theory & Policy MIT Press, 3rd ed , 2010

Unit Web Page

You can access the ECON844 web site on iLearn from anywhere on the Internet. To login you need a Username and password. All lecture slides should be available on the iLearn site at least by midday of the lecture.

Unit Schedule

Week 1 Tuesday 1 August

IINTRODUCTION

Chapter 1

Extra reading: Hamilton, J, 2017, "Why you should never use the Hodrick-Prescott filter", http://voxeu.org/article/why-you-should-never-use-hodrick-prescott-filter

NB: This lecture will be shorter than usual.

Week 2 Tuesday 8 August

MEASUREMENT; BUSINESS CYCLE MEASUREMENT

Chapters 2 & 3

Extra reading: Feldstein, M, 2017, "Underestimating the real growth of

GDP, personal income, and productivity", *Journal of Economic Perspectives,* Volume 31, Number 2—Spring 2017. pp. 145–164.

Week 3 Tuesday 15 August CONSUMER & FIRM BEHAVIOUR; A CLOSED-ECONOMY ONE-PERIOD MACROECONOMIC MODEL Chapters 4 & 5 *Extra reading*: 1. Thimann, C, 2015, "The

microeconomic dimensions of the Eurozone crisis and why European politics cannot solve them", Journal of Economic Perspectives, Volume 29, Number 3, Summer, pp. 141–164. 2. Barro, R, Redlick, C, 2009, "Macroeconomic effects from government purchases and taxes," NBER Working Paper 15369

Week 4 Tuesday 22 August SEARCH & UNEMPLOYMENT; ECONOMIC GROWTH Chapters 6 & 7 *Extra reading*: Mankiw, N, Romer, D and Weil, D, 1992, 'A contribution to the empirics of economic growth', Quarterly Journal of Economics, vol. 107, issue 2, pp. 407–37.

Week 5 Tuesday 29 August

INCOME DISPARITY AMONG COUNTRIES; A TWO-PERIOD MODEL

Chapters 8 & 9

Extra reading: 1. Li, H, Loyalka, P, Rozelle, S, and Wu, B, 2017, "Human capital and China's future growth", Journal of Economic Perspectives, Volume 31, Number 1, pp. 25–48.

2. Barro, R, 2014, "Convergence and modernization", working paper, Harvard

Week 6 Tuesday 5 September CREDIT-MARKET IMPERFECTIONS; A REAL INTERTEMPORAL MODEL WITH INVESTMENT Chapters 10 & 11 *Extra reading*: Lo, S and Rogoff, K, 2015, "Secular stagnation, debt overhang and other rationales for sluggish growth, six years on", BIS Working Paper No 482.

Week 7 Tuesday 12 September)

CLASS TEST, in place of lecture. Value: 20%

Week 8 Tuesday 4 October

Week 8 Tuesday 4 October

MONEY, BANKING & PRICES; MARKET-CLEARING MODELS OF THE BUSINESS-CYCLE MODELS WITH FLEXIBLE WAGES & PRICES

Chapters 12 & 13

Extra reading: 1. Ihrig, J, Meade, E and Weinbach, G, 2015, "Rewriting monetary policy 101: what's the Fed's preferred post-crisis approach

to Raising Interest Rates?", Journal of Economic Perspectives, Volume 29, Number 4, Fall, pp.177–198.

2. Barro, R, Redlick, C, 2009, "Macroeconomic effects from government purchases and taxes," NBER Working Paper 15369.

Week 9 Tuesday 11 October NEW KEYNESIAN ECONOMICS; INTERNATIONAL TRADE IN GOODS & ASSETS Chapters 14 & 15 *Extra reading:* Australian Treasury 2015, "Re:think", Tax Discussion Paper

Week 10 Tuesday 17 October MONEY IN THE OPEN ECONOMY Chapter 16 Extra reading: Cheung, Y-W, Chinn, M, Pascual, A, and Zhang, Y, 2017, "Exchange rate prediction redux: new models, new data, new currencies", NBER Working Paper No. 23267.

Week 11 Tuesday 24 October

MONEY IN THE OPEN ECONOMY; MONEY, INFLATION & BANKING

Chapters 16 & 17

Extra reading: Cochrane, J, 2014, "Toward a run- free financial system" in Martin Neil Baily & John B. Taylor, eds., *Across the Great Divide: New Perspectives on the Financial Crisis*, Hoover Press.

Week 12 Tuesday 1 November

INFLATION, THE PHILLIPS CURVE & CENTRAL BANK COMMITMENT

Chapter 18

Week 13 Tuesday 7 November

   REVIEW

Policies and Procedures

Macquarie University policies and procedures are accessible from Policy Central. Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy http://mq.edu.au/policy/docs/academic_honesty/policy.html

Assessment Policy http://mq.edu.au/policy/docs/assessment/policy_2016.html

Grade Appeal Policy http://mq.edu.au/policy/docs/gradeappeal/policy.html

Complaint Management Procedure for Students and Members of the Public http://www.mq.edu.au/policy/docs/complaint_management/procedure.html

Disruption to Studies Policy (in effect until Dec 4th, 2017): http://www.mq.edu.au/policy/docs/disruption_studies/policy.html

Special Consideration Policy (in effect from Dec 4th, 2017): https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policies/special-consideration

In addition, a number of other policies can be found in the Learning and Teaching Category of Policy Central.

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: https://students.mq.edu.au/support/student_conduct/

Results

Results shown in *iLearn*, or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in eStudent. For more information visit ask.mq.edu.au.

Student Support

Macquarie University provides a range of support services for students. For details, visit http://students.mq.edu.au/support/

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- Workshops
- StudyWise
- Academic Integrity Module for Students
- Ask a Learning Adviser

Student Services and Support

Students with a disability are encouraged to contact the Disability Service who can provide appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/

offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the Acceptable Use of IT Resources Policy. The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

Learning outcomes

- Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.
- Construct a framework for understanding modern dynamic stochastic general equilibrium models.
- Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

Assessment tasks

- 1. Mid Semester Examination
- 2. Review essay
- 3 Final examination

PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

Learning outcomes

- Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.
- Construct a framework for understanding modern dynamic stochastic general equilibrium

models.

- Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

Assessment tasks

- 1. Mid Semester Examination
- 2. Review essay
- 3 Final examination

PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

Learning outcomes

- Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set.
- Construct a framework for understanding modern dynamic stochastic general equilibrium models.
- Analyse dynamic path of key economic variables and able to communicate the analysis to diverse audience.

Assessment tasks

- 1. Mid Semester Examination
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Research and Practice

This unit gives you practice in applying research findings in your tutorials and assignment.