Course Objectives: Monetary economics explores the relationship between real economic variables at the aggregate level - such as real GDP, real interest rates, and real exchange rates - and nominal economic variables - such as the money supply, the inflation rate, nominal interest rates, and nominal exchange rates. Thus, the primary objective of this course is to further students’ understanding of the interactions between real and nominal economic phenomenon. The course is also designed to improve students’ ability to think critically, to improve students’ ability to analyze and interpret articles and commentary found in journals and newspapers, and to enhance students’ ability to view the world from the perspective of an economist.

Course Description: ECON 472 is offered as an upper level theory course. Thus, much of the course will be analytical in nature. Prerequisites for this course include two semesters of macroeconomics - principles and intermediate. Students enrolled in the course are therefore assumed to have been exposed to basic ideas and concepts related to money, monetary theory, and monetary policy. This course offers an advanced and sophisticated treatment of these topics in the context of fully specified monetary economies with microfoundations. During the course of the semester we will answer questions such as: Why do people use money? What causes inflation? What are the consequences of a changing stock of money on the welfare of individuals in the economy? We will also discuss issues related to banking (the intermediation of other assets into money) and central banking (the management of the total money supply). In addition, we will look at money’s effects on saving, investment and output through its effect on nonmonetary government debt. On occasion, as time and interest permit, we will depart from textbook matters to discuss issues and current events that appear in the popular press.

Prerequisites: ECON 312 - Intermediate Macroeconomics, MATH 151 or 155 - Calculus. Recommended: ECON 311 - Intermediate Microeconomics.

Textbooks: The required text for the course is Bruce Champ and Scott Freeman’s Modeling Monetary Economies (henceforth CF). We will follow this book fairly closely for most of the course. The approach taken in CF is to derive macroeconomic phenomenon from microeconomic foundations. Thus, the models in this text will look very much like the models of rational, optimizing individuals you studied in intermediate micro. Time permitting, we will also explore another common approach to macroeconomics, based not on explicit optimization, but on convenient approximations. The IS-LM-AS model you are familiar with from intermediate macro is an example of this approach. David Romer has developed a variation on the IS-LM-AS model and has posted a set of course notes on his web page (http://elsa.berkeley.edu/~dromer/index.html). If we make it through CF, we will explore Romer’s model.

Attendance and Study Habits: In order to succeed in this course, it is very important that you attend class. Attendance will affect your grade implicitly via your performance on homework and exams. Students should also plan to dedicate weekly study time outside of class to reading, review of class notes, and exercises. Relevant chapters from the text and any other assigned materials are to be read prior to lecture. At the undergraduate level, students are typically expected to spend at least two hours studying outside of class for every hour spent in class. For the purposes of this course, this guideline should be taken seriously. At the beginning of each class meeting, I will typically ask a series of questions related to the previous lecture or a related assignment. I expect students to be willing and able to respond.

Active Engagement: If you are actively engaged in the classroom you are much more likely to learn and enjoy the course. Participation in class is therefore very important. I encourage you to ask questions in class - especially if you are confused or unclear about what we are doing and/or why we are doing it. Please also feel
free to comment on any of the material we cover and even to ask questions about economic items of interest that aren’t directly related to the course. If time permits, I’m always happy to take a detour.

**Evaluation Procedure:** Students will be evaluated based on a series of exams, homework, and a paper. There will be two non-cumulative “midterm” exams during the regular semester, and a comprehensive final exam during finals week. Make-up exams will be offered only to those students with valid, verifiable excuses for their absence, and only if I am notified in a timely manner (i.e., prior to the exam missed or as soon as possible thereafter). Homework will occasionally be assigned and sometimes collected for grading. Collaboration on homework assignments is encouraged. However, students are expected to prepare their submitted work independently. Students are also required to write a research paper on an interesting monetary period/event/policy issue. Further details on the assignment will be provided later in the semester.

Tentative exam and due dates are as follows:

- “Midterm” Exam 1: Thursday, March 6
- Papers: Thursday, April 10
- “Midterm” Exam 2: Thursday, April 24
- Final Exam: Thursday, May 15, 1-3

**Grading:** Your homework (HW) and paper (P) score will count 10% each towards your semester total. Your performance on exams will be measured as follows: First, your average score on the two midterm exams, m, will be calculated. This figure will then be averaged with your final exam score, f, to produce your exam average, E. The larger of the two figures will count twice and the smaller once, so that \( E = \frac{2\max\{m, f\} + \min\{m, f\}}{3} \). Thus, your semester total, T, will be computed as follows: \( T = 0.10(HW) + 0.10(P) + 0.80(E) \). Semester totals will be subject to the following grade guarantees: A if \( t \geq 90 \); A or B if \( t \geq 80 \); A, B, or C if \( t \geq 70 \); A, B, C, or D if \( t \geq 60 \). Actual grade cut-offs may (or may not) turn out to be a bit lower.

**Extra Credit:** Looking for extra credit? You may earn up to 4 extra credit percentage points by revising your paper.

**Academic Integrity:** Academic integrity is of the utmost importance. As members of UMBC’s scholarly community, it is essential for all of us to practice and promote high standards of thoughtfulness and honesty in our work. I will do my best to foster a classroom environment consistent with achieving these aims, and expect the same of you. Violations - including, but not limited to, cheating, fabrication, facilitating academic dishonesty, and plagiarism - will be punished in accordance with university policy and procedures. Please see the UMBC faculty or student handbook if you are unfamiliar with these rules. In cases of academic misconduct, my general recommendations are (1) failure for the course and (2) a note that academic misconduct occurred in the permanent record.

**Drop Deadlines and Incomplete Grades:** As published by the Office of the Registrar, the last day to drop without a transcript W is February 21. The last day to drop without withdrawing from all classes is April 7. Grades of “incomplete” will only be “given under exceptional circumstances for course work that is qualitatively satisfactory but, for reasons beyond your control, cannot be completed.”

**Course Web Site:** There is a link on my web-site (www.research.umbc.edu/~bewilson) for this course. I will post copies of any homework assignments and hand-outs distributed in class. I will also post announcements, exam scores (by ID only, not by name), and other items of interest as they come up during the semester.

**Other Items:** If you think you are having any problems with the course, please see me as soon as possible. In addition, please keep in mind that while there is specific material that we need to cover to fulfill the course objectives, we can certainly deviate from the course outline on occasion. If there are any topics or issues not listed that you would like to discuss, or if you have any questions, please just let me know and I will try to adjust our schedule accordingly.
Course Outline:

Section I - Money: Chapters 1-5, CF. We will begin this section with a simple model of money with microfoundations and eventually extend it to an open economy. We will conclude with a discussion of the Lucas critique. Topics include: a simple model of money, barter and commodity money, inflation, international monetary systems, and price surprises.

Section II - Banking: Chapters 6-12, CF. In this section, we expand the analysis of section II by introducing assets other than money into the model. Topics include: capital vs money, liquidity and financial intermediation, central banking and the money supply, money stock fluctuations, the payments system, and bank risk.

Section III - Government Debt: Chapters 13-16, CF. In this section, we examine the effect of monetary policy on the national debt and its effect on saving and investment. Topics include deficits and the national debt, savings and investment, the effect of the national debt on capital and savings, and the temptation of inflation.

Section IV: A “Traditional” Theory of Fluctuations: http://elsa.berkeley.edu/ dromer/index.html. In this section, we will explore the sources of short-run fluctuations in the context of a traditional Keynesian theory of the macroeconomy, and examine policy prescriptions.