



Economics

COLLEGE OF LIBERAL ARTS & SCIENCES

ECON 517

Theory of Monetary Policy

Course Syllabus

Credits: 4 graduate hours

Semester: Spring 2026

Instructor: Stephen Parente

Meeting Times: M, W 2:00-3:20 PM

Class Room: 119 DKH

Office Hours: T, Thu 11:00-12:00 (Zoom)

Office: 205D DKH

Email: parente@illinois.edu



This course is a full-semester, 4 credit hour course. In accordance with university guidelines, students should expect to spend a minimum of **8 hours per week** on coursework outside of scheduled class time. This includes activities such as reading, completing assignments, working on projects, and preparing for exams. For more information, please refer to the university's policy on [Assigning Credit Hours](#).

Course Overview

This course investigates why money exists, how monetary systems have evolved, and how modern monetary policy works in theory and practice. We begin with foundational questions about monetary exchange and the role of money in economic equilibrium. We then trace the evolution of monetary theory from models that explicitly derive money (OLG, Search) to models that assume its transactional role (CIA, MIU), culminating in Woodford's cashless limit and New Keynesian monetary policy. The second half of the course examines empirical identification, policy transmission, and cross-country institutional differences.

Prerequisites: Econ 517 and Econ 516 are **independent courses**. While they share some overlap, their topics are largely distinct and complementary. Econ 517 was designed without requiring prior material from Econ 516, so students who have not taken Econ 516 are **not at a disadvantage** in Econ 517.

Learning Outcomes

By the end of this course, students will:

1. Understand the evolution of monetary policy models and the rationale behind modern frameworks.
2. Explain how monetary policy transmits through interest rates, credit conditions, and expectations.
3. Analyze how agents form expectations and how information frictions affect policy effectiveness.
4. Evaluate the importance of credibility, commitment, and institutional design in monetary policy.
5. Assess how fiscal constraints, political economy, and financial innovation shape the limits of monetary policy.

Learning Resources

Learning Management System: The course will be administered through Canvas (canvas.illinois.edu). All necessary materials for the course will be posted there, and it will be the primary means of communication with the instructor.

Readings and Lecture Notes: The course will be based primarily on articles. All articles are linked through the canvas course page under the corresponding modules.

Problem Sets

There will be multiple problem sets assigned throughout the semester. Because this is the first time the course has been taught in some time, the exact number of problem sets has not yet been determined and may be adjusted as needed. Problem sets are a required component of the course and are designed to ensure understanding of the material and to prepare students for the exams.

(Anticipated) Problem Set Due Dates:

Problem Set 1: FRED Badge January 26

Problem Set 2: Money Supply and Banking System February 2

Problem Set 3: Gold Standard and Reals Bill Doctrine February 9

Problem Set 4: OLG February 16

Problem Set 5: To be Determined

Problem Set 6: To Be Determined

Examinations

All exams are in-person. There will be two midterm exams and a final exam. The final exam will be cumulative and will differ in format from the midterm

Exam Schedule:

Midterm Exam I: February 25

Midterm Exam II: April 15

Final Exam: May 7, 7:00-10:00 PM

Central Bank Monitoring Reports

Students will complete four monthly group assignments focused on real-time monitoring of central bank monetary policy. Working in groups of four, students will follow one assigned country throughout the semester and analyze policy decisions as they occur. Each assignment consists of four components: (i) a policy decision tracker, (ii) a data and operations snapshot, (iii) an interpretation memo, and (iv) a counterfactual policy analysis. Assignments are due on the last day of each month during the semester, except for the first which is due February 11. The purpose of these exercises is to develop an applied understanding of monetary policy frameworks, implementation, and communication across countries.

Grades

Scoring

Component	Points
5(?) Assignments 5 x 20 pts	100 Total Points
Midterm I Exam	150 Total Points
Midterm II Exam	150 Total Points
Final Examination	250 Total Points
VAR Project	150 Total Points
Monetary Policy Monitor 4 x 50	200 Total Points
Total	1000

Your grade will be calculated as a percentage based on the point allocation above. The final grade for the class will be out of 1,000 points. To calculate your letter grade at any point in the semester, i.e., before all exams and assignments are finalized, divide the total points you have scored on all graded assignments, exams, etc. by the total possible points for those components of the course. Multiply this number by 100 and round to the nearest integer; then compare that number to the Plus/Minus Grade Cutoffs below. For example, suppose you obtained 120 out of 150 points on the midterm and perfect scores on your first 4 assignments, then your grade at this point of the semester would be $100 \times (4 \times 20 + 120) / (80 + 150) = 87$, which is a B+.

Grading Cutoffs

A+	100-97.00	C+	77.00-79.99	F	0-59.99
A	93.00-96.99	C	73.00-76.99		
A-	90.00-92.99	C-	70.00-72.99		
B+	87.00-89.99	D+	67.00-69.99		
B	83.00-86.99	D	63.00-66.99		
B-	80.00-82.99	D-	60.00-62.99		

Course Policies

Attendance and Class Policy: Although attendance will not be officially recorded, students are expected to attend every class session. Regular attendance is mandatory for success in this course. Mobile phones are strictly prohibited during class, except with the instructor's explicit permission for audio recording of lectures. Phones may not be used for texting, browsing, or any other purpose.

Any approved recordings are for personal academic use only and may not be shared, posted, or distributed in any form. No handouts or PowerPoint materials will be provided. Students are required to take their own notes during class and must remain fully attentive and engaged at all times.

Permission to record does not replace the expectation of attendance or active participation and may be revoked at the instructor's discretion. ([§ 1-501 | Student Code | UIUC](#))

Assignment Policy: Problem Sets are an indispensable part of the course and must be submitted through Canvas by the due date. Any assignment submitted after the due date will receive a 25% late penalty. Assignments submitted more than one week after the due date will not be accepted and will receive a score of 0. The same late policy applies to the Monetary Policy Monitoring reports.

Class Participation Policy: Class Participation is greatly encouraged. Although there is no penalty for not participating, those students who do, by regularly answering questions and posing questions will be rewarded in the assignment of their course letter grade. Specifically, for those actively participate, their letter grade will be moved up one mark, e.g. from a B+ to an A-.

Exam Policy: Exams will be conducted in person and will be open book. Exam dates are not flexible. There are some exceptions to this rule, such as a death in the family or illness requiring immediate attention from a physician. See Article 1 - Student Rights And Responsibilities ([specifically, § 1-501 | Student Code | UIUC](#)). In such cases, a student must obtain an absence letter from the Office of the Dean of Students (<https://odos.illinois.edu/resources/students/absence-letters.>)

Additional Course and Campus Policies

Academic Integrity

The University of Illinois Urbana-Champaign *Student Code* should also be considered as a part of this syllabus. Students should pay particular attention to Article 1, Part 4: Academic Integrity. Read the Code at the following URL: <http://studentcode.illinois.edu/>. Academic dishonesty may result in a failing grade. Every student is expected to review and abide by the Academic Integrity Policy: <https://studentcode.illinois.edu/article1/part4/1-401/>. Ignorance is not an excuse for any academic dishonesty. It is your responsibility to read this policy to avoid any

misunderstanding. Do not hesitate to ask the instructor(s) if you are ever in doubt about what constitutes plagiarism, cheating, or any other breach of academic integrity.

Students with Disabilities

The University of Illinois Champaign-Urbana, is committed to ensuring that all students, including students with disabilities, do not experience barriers to learning and participating fully in class. Students who have a letter of accommodation from DRES are advised to share that with instructors as soon as possible to ensure accommodation needs can be discussed and met.

To obtain disability-related academic accommodations, disabled students must contact Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES, please visit 1207 S. Oak Street, Champaign, call 217.333.1970, email disability@illinois.edu, or visit the DRES website.

Family Educational Rights and Privacy Act (FERPA)

See <http://registrar.illinois.edu/ferpa> for more information on Family Educational Rights and Privacy Act (FERPA).

Mental Health

Significant stress, mood changes, excessive worry, substance/alcohol misuse or interferences in eating or sleep can have an impact on academic performance, social development, and emotional wellbeing. The University of Illinois offers a variety of confidential services including individual and group counseling, crisis intervention, psychiatric services, and specialized screenings which are covered through the Health Service Fee. If you or someone you know experiences any of the above mental health concerns, it is strongly encouraged to contact or visit any of the University's resources provided below. Getting help is a smart and courageous thing to do for yourself and for those who care about you.

- Counseling Center (217) 333-3704
- McKinley Health Center (217) 333-2700
- National Suicide Prevention Lifeline (800) 273-8255
- Rosecrance Crisis Line (217) 359-4141 (available 24/7, 365 days a year)

If you are in immediate danger, call 911.

*This statement is approved by the University of Illinois Counseling Center

Community of Care

Reminders for Faculty: Should a student disclose information that causes concern for their well-being, or should a student exhibit concerning behaviors in the classroom, we encourage you to refer this behavior to the Connie Frank CARE Center (formerly the Student Assistance Center) in the Office of the Dean of Students. You may do so by calling 217-333-0050 or by submitting an [online referral](#). Based on your report, staff in the

Connie Frank CARE Center will reach out to offer support and assistance. However, should you have concerns about the imminent health and safety of a student, please call 911 to request the assistance of first responders.

Syllabus Language: As members of the Illinois community, we each have a responsibility to express care and concern for one another. If you come across a classmate whose behavior concerns you, whether in regard to their well-being or yours, we encourage you to refer this behavior to the Connie Frank CARE Center (formerly the Student Assistance Center) in the Office of the Dean of Students. You may do so by calling 217-333-0050 or by submitting an [online referral](#). Based on your report, staff in the Connie Frank CARE Center will reach out to offer support and assistance.

Further, as a Community of Care, we want to support you in your overall wellness. We know that students sometimes face challenges that can impact academic performance (examples include mental health concerns, food insecurity, homelessness, personal emergencies). Should you find that you are managing such a challenge and that it is interfering with your coursework, you are encouraged to contact the [Connie Frank CARE Center](#) (formerly the Student Assistance Center) in the Office of the Dean of Students for support and referrals to campus and/or community resources.

Disruptive Behavior

Behavior that persistently or grossly interferes with classroom activities is considered disruptive behavior and may be subject to disciplinary action. Such behavior inhibits other students' ability to learn and an instructor's ability to teach. A student responsible for disruptive behavior may be required to leave class pending discussion and resolution of the problem and may be reported to the Office for Student Conflict Resolution (<https://go.illinois.edu/ReportMisconduct>; conflictresolution@illinois.edu; 333-3680) for disciplinary action.

Emergency Response Recommendations

Emergency response recommendations and campus building floor plans can be found at the following website: <https://police.illinois.edu/em/run-hide-fight/>. I encourage you to review this website within the first 10 days of class.

Religious Observances

It is the policy of the University of Illinois Urbana-Champaign to reasonably accommodate its students' religious beliefs, observances, and practices that conflict with a student's class attendance or participation in a scheduled examination or work requirement, consistent with state and federal law. Students must make requests for accommodation in advance of the conflict to allow time for both consideration of the request and alternate procedures to be prepared. Requests should be directed to the instructor. The Office of the Dean of Students provides an optional resource on its [website](#) to assist students in making such requests.

Sexual Misconduct Reporting Obligation

The University of Illinois is committed to combating sexual misconduct. Faculty and staff members are required to report any instances of sexual misconduct to the University's Title IX Office. In turn, an individual with the Title IX Office will provide information about rights and options, including supportive measures, resources, the campus disciplinary process, and law enforcement options.

A list of the designated University employees who, as counselors, confidential advisors, and medical professionals, do not have this reporting responsibility and can maintain confidentiality, can be found here: wecare.illinois.edu/resources/students/#confidential.

Other information about resources and reporting is available here: wecare.illinois.edu.

Veterans and Military Students

As a military-friendly institution, and per federal regulations and Illinois statutes, the University of Illinois Urbana-Champaign has established policies and procedures to accommodate military-connected students. In addition to the support available at the Chez Veterans Center (<https://chezveteranscenter.ahs.illinois.edu/>), members of the National Guard or Reserves and active-duty military personnel with military obligations (e.g., deployments, training, drills) are encouraged to communicate these, in advance whenever possible, to the instructor. The policy for Excused Absences and Departure from the University for U.S. Military or other U.S. National Defense Services can be found at <https://studentcode.illinois.edu/article3/part3/3-313>.

Academic Dates and Deadlines

Students should make note of important academic deadlines for making changes to their courses (add, drop, credit/no-credit, grade replacement, etc.).

<https://registrar.illinois.edu/academic-calendars>

Please check with your academic department regarding specific procedures and policies.

Course Schedule (Subject to change with advanced Notice)

Week	Topic(s)	Required Readings
1 Jan 21	The History of Monetary Theory	Sultanum (2023);
2 Jan 26, 28	Money, Banking, and Balance Sheets	E. Sims Lecture Slides(2025); Andolfatto (2022)

	In Search for a Nominal Anchor	Hetzel (2017); Bordo & Wheelock (2009); Bordo (2018) FRED Badges Due Jan 28
3 February 2, 4	Monetary Policy Design: Rules, Discretion, and Activism Overlapping Generations Model	McCallum (1987) Parente OLG Notes; Samuelson (1958) Feb 4 Assignment 1 due
4 February 9,11	Overlapping Generations & Value of Fiat Money	Samaniego (2022)
5 February 16, 18	CIA and MIU Models Woodford's Cashless Limit	Parente CIA/MIU Notes; Garin, Lester and Sims, Ch. 14 Woodford (1993), Woodford (2003), Ch. 1-2 February 16 Assignment 2 due
6 February 23, 25	NK Model & Modern Monetary Policy Midterm Exam I Feb 25	Parente Notes (2026); Poutineau, Sobczak, and Vermandel (2015)
7 March 2, 4	Taylor Rule, Determinacy & Systematic Policy	Woodford (2003), Ch. 4; Taylor (1993); C-G-G (1999), §§2-3
8 March 9, 11	Transmission: Interest Rates, Credit & Financial Conditions	Mishkin (1996); Bernanke-Gertler-Gilchrist (1999)
9 March 23, 25	Identifying Monetary Policy Shocks & the Price Puzzle	Gottshalk (2001); Balk and Emery (1994)

10 March 30, April 1	Expectation Formation: Sticky Information & Rational Inattention	Woodford (2003), Ch. 2; Mankiw-Reis (2002); Sims (2003); Coibion- Gorodnichenko (2015)
11 April 6, 8	Failure of the NK Transmission Mechanism	Stracca (2010); Goodhart- Hofmann (2005); Schwartz (1987)
12 April 13, 15	Credibility, Time Inconsistency & Institutional Design Midterm Exam II April 15	Barro-Gordon (1983); Svensson (1997); Clarida, Gali and Gertler (1999)
13 April 20, 22	Forward Guidance, Expectations Management & Credibility Limits	Woodford (2005); Campbell et al. (2012); Bernanke (2013); Bank of England (2014)
14 April 27, 29	Credibility in Practice	Volcker (1983); Sargent (1982); BIS (EM case studies)
15 May 4, 6	Fiscal-Monetary Interactions (Theory) Fiscal Dominance in Practice	Sargent-Wallace (1981); Cochrane (2021); Bassetto- Cui (2018); Leeper (1991) IMF (2022); BIS (2021); Alp & Kara (2011); D'Amato & Garegnani (2020); BCB (2022)
16 May 11	Final Examination 7:00- 10:00 PM	Final is Cumulative