

ECON 517: Monetary Policy
Department of Economics, LAS, UIUC

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Synchronous via Zoom

Spring 2021
TuTh 9:30-10:50am

Communication

All class wide updates are posted on the announcement section of the class Compass site. If an update is time sensitive, a notification will be sent to your university email account.

The Piazza (a discussion board) site for this class is linked through Compass. If your question is not about a private matter, consider asking it on Piazza. My dedicated time on Piazza is 8-9pm daily.

E-mail: ruizhao@illinois.edu

Office Hours: Mondays 8:30-9am and 5-5:30pm via Zoom without appointment.

Fridays 2-3pm via Zoom with email appointment at least 24 hours ahead.

Course Description

This course focuses on the money side of macroeconomics. About 60% of the class deals with structure of financial markets and instruments traded on the financial market. The rest is devoted to the central bank behavior and monetary policy.

Learning Resources

Required textbook: Hubbard and O'Brien, *Money, Banking, and the Financial System*, 3rd edition.

Any additional materials are distributed through Compass.

Delivery Method

Lectures are given via Zoom during the allotted class time period. A recording of the session will be released afterward. Attendance is highly recommended. A link on the class Compass site lists all scheduled Zoom meetings that are related to this class, both lectures and office hours. Per the recommendation by the tech department, Zoom sessions are restricted to the U of I domain. You must log in to your U of I Zoom account to join; otherwise you will be stranded in the waiting room.

Important Dates

A class schedule with all due dates is summarized by a table attached at the end. It should be very handy to have it printed out and put somewhere accessible.

Midterm I: Tuesday, February 23rd

Deadline to Drop without a grade of W: Friday, March 19th

Midterm II: Tuesday, March 23rd

Final: Tuesday, May 11th, 1:30-3:10pm

Student Assessment

This class uses a plus/minors grading system. Roughly, ≥ 85 A, ≥ 70 B, and ≥ 60 C.

Your grades are based on quizzes (10%), homework (15%), two midterm exams (22.5% each), and a final exam (30%).

Quizzes: There is one quiz, consisting of 10 multiple-choice questions, after each lecture. Ideally you want to do them right after to discover which part you don't quite understand and enlist help via posts on Piazza and/or office hours. Each exam is a representative sample of questions similar to those in the quizzes. To make everyone's life easier, the deadline for submitting answers to quizzes that are covered by each exam is 9am on the day of the exam. You are allowed unlimited attempts at each quiz before the due date and time; only the attempt with the highest score will be counted.

Homework: There are a total of 11 sets of homework, distributed regularly. All homework is due on Sundays by 11:30pm. You upload your homework through the link in a folder named "homework" on Compass. This is also the place where you can download the homework questions.

Click on the relevant link and follow the instructions to submit. Ideally you want to make your answer into a single file, word or pdf. If you don't know how to do that, the setting allows you to submit multiple times. You can take a picture of your written homework and submit one picture at a time. If you plan to do the latter, please make sure that you mark each page with the right page number.

Because answers to homework are distributed right after the deadline, no late homework will be accepted. Both quality and quantity count; no excuse will be taken into consideration for missed homework submission, as 90% of the total is enough to earn you full credit.

Each assignment is out of 10 points. You only receive the following four possible grades:

- 3 points: Assignment is incomplete. More than half of questions are missing or have missing parts.
- 6 points: Assignment is almost complete. At least 40% of the answers are correct or on the right track.

- 9 points: Assignment is complete. At least 75% of the answers are correct or on the right track.
- 10 points: Assignment is complete. At least 90% of the answers are correct or on the right track.

Exams: All exams are non-accumulative and in the form of multiple choices. Midterms are scheduled during the lecture time and final during the final period according to the university guideline. Should an unforeseeable event arise, please contact me via email **before, during, or within 24 hours of the exam.**

No proctor service, paid or free, is used in this class. We implement the following to maintain the integrity of exams.

- Three versions of comparable exams are deployed simultaneously. You are assigned to one version randomly. You can find out which version of exam you should take at 9am on the day of the exam. Taking the wrong version invalidates your exam.
- Everyone starts the exam more or less at the same time. You can't take the exam if you are more than 10 minutes late.
- Questions in each exam are deployed one at a time and randomly. **You can't backtrack.**
- You are given 2 minutes per question on average. For example, a 40-question exam is 80 minutes long.

Students with disabilities: Students who require non-standard examination conditions please let me know as soon as possible.

Honor code: All types of cheating are strictly prohibited. Academic misconduct will be handled according to the University Academic Integrity Policy.

Econ 517 schedule at a glance

Date	Slides	Textbook reading	quizzes are due at 9am on due dates	homework are due on Sundays 11:30pm
26-Jan	Review		quiz A1	
28-Jan	Introducing the financial system	Ch1	quiz A2	
2-Feb	Money and the payment system	Ch2: 2.1-2.4	quiz A3	hw1 7-Feb
4-Feb	Why present value?	Ch3	quiz A4	hw2 14-Feb
9-Feb	Bond price and yield-to-maturity		quiz A5	
11-Feb	Interest rate determination	Ch4: 4.1 and Appendix	quiz A6	hw3 21-Feb
16-Feb	Term structure of interest rate	Ch5	quiz A7	
18-Feb	Credit risk and risk premium		quiz A8	
23-Feb	Midterm I			
25-Feb	Stock market statistics	Ch6	quiz B1	hw4 7-Mar
2-Mar	Efficient market hypothesis		quiz B2	
4-Mar	Forward and futures	Ch7	quiz B3	hw5 14-Mar
9-Mar	Options and swaps		quiz B4	
11-Mar	Asymmetric information	Ch9:	quiz B5	hw6 21-Mar
16-Mar	The economics of banking	Ch10	quiz B6	
18-Mar	Regulating banking system	Ch11 no 11.3; Ch12 12.1 & 12.4	quiz B7	
23-Mar	Midterm II			
25-Mar	Long run neutrality of money	Ch2 2.5	quiz C1	hw7 11-Apr
30-Mar	Cause and cure of inflation	Ch13	quiz C2	
1-Apr	Discount window and OMO	Ch14: 4.1; Ch15: 15.3	quiz C3	hw8 18-Apr
6-Apr	Money multiplier	Ch14	quiz C4	
8-Apr	Exchange rate	Ch8, 8.3 only the interest rate parity part	quiz C5	hw9 25-Apr
15-Apr	Relative PPP		quiz C6	
20-Apr	Foreign exchange intervention	Ch16	quiz C7	hw10 2-May
22-Apr	BOP		quiz C8	
27-Apr	Goals, tools and instruments	Ch15	quiz C9	hw11 9-May
29-Apr	Liquidity preference model	Ch4: 4.4	quiz C10	
4-May	Rational expectation	Ch18: 18.2, 18.4	quiz C11	
11-May	Final 1:30-3:10pm			