

# Econ 516: Monetary Theory

Fall 2018

University of Illinois at Urbana-Champaign

College of Liberal Arts & Sciences

Department of Economics

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**Office hours:** Mondays 3:00p-5:00p

**Office room:** 101A David Kinley Hall

## Scheduled Class Time and Organization:

We will meet twice a week. Details follow soon.

## Course Description:

This course aims to provide the student with an advanced understanding of monetary economics, including contemporary and historical monetary theory, central banking and monetary policy. We will study both, theoretical and empirical models and tools to analyze the role and dynamic effects of monetary policy actions on economic outcomes.

This course will also analyse the evolving role of central banking and views regarding the role and conduct of monetary policy, including recent and historical international policy actions.

The topics and applications to be covered are detailed below.

## Course Format:

The instructor will give lectures on major concepts and issues and have classroom discussions when necessary. Students will be asked to do problem sets and produce forecasts using forecasting tools taught in class.

**Course Objectives:** Students will acquire a comprehensive knowledge of the evidence on the impact of various interventions to improve access to, and quality of, education in developing countries. Students will gain an understanding of the strengths and weaknesses of different methodological approaches to impact evaluation. Students will develop the following skills as consumers of research: Understanding and summarizing academic research Critiquing and assessing research for quality and relevance Replicating empirical analyses Synthesizing evidence across

multiple sources Planning research to answer policy-relevant questions Designing tools for evaluation Writing clear, concise and effective summaries, reviews, memos, and briefs to effectively communicate to policy makers

- To provide understanding of basic forecasting methods.
- To provide hands-on experiences of economic forecasting using real data.

### **Readings:**

The course is based on lecture notes, textbook chapters and research papers that are assigned before each class. Some useful textbooks are listed below.

- Gali, Jordi (2015), “*Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications*”, Princeton University Press
- Walsh, Carl E. (2017), “*Monetary Theory and Policy*”, The MIT Press, fourth edition
- Woodford, Michael (2003), “*Interest and Prices*”, Princeton University Press

### **Course Web Page:**

We will use the black-board software: <https://compass2g.illinois.edu/>

### **Course Requirements:**

- **Problem sets** [30%].
- **Midterm exams** [30%].
- **Final exam** [40%].

### **Important Dates:**

The mid term exams are schedule as follows.

Exam dates and times are *not* flexible. The only exception to this rule is a death in the family or illness requiring immediate attention from a physician. See Article 1 - Student Rights And Responsibilities (for more details on these issues at: [http://www.admin.illinois.edu/policy/Code/article1\\_part5\\_1-501.html](http://www.admin.illinois.edu/policy/Code/article1_part5_1-501.html)). The final exam conflict policy of the University will be applied in order to resolve any

exam schedule conflicts. The University's final exam policy is available at:  
[http://studentcode.illinois.edu/article3\\_part2\\_3-201.html](http://studentcode.illinois.edu/article3_part2_3-201.html)

**Tentative Schedule:**

Section 1: Introduction and review of basics.

Section 2: Some principles of monetary theory and policy.

Section 3: Evidence on money, prices and output.

Section 4: Dynamic effects of monetary policy shocks: Methodology and evidence.

Section 5: The classical monetary models.

Section 6: The basic New Keynesian model.

Section 7: Financial crises and unconventional monetary policy.

<b>Date</b>	<b>Lecture</b>	<b>Topics</b>	<b>PS</b>
<b>Section I: Introduction and review of basics.</b>			
Week 1	L1	Course introduction	
	L2	Review of basics to monetary theory	
<b>Section II: Some principles of monetary policy and theory</b>			
Week 2-4	L3	How to look at data	
	L4	Introduction to Matlab	
	L5-L6	Phillips curve, NAIRU	
	L7-L8	Quantity theory of money, Fisher equation, Lucas asset pricing equation	PS1
<b>Section III: Evidence on Money, Prices and Output</b>			
Week 5-6	L9-L10	Empirical methodology	
	L11	U.S. evidence and applications	PS2
	L12	First midterm exam	
<b>Section IV: Evidence on dynamic effects of monetary policy shocks</b>			
Week 7-9	L13-L16	The VAR approach and evidence	PS3
	L17-L18	Student presentations	
	L19	Second midterm exam	
<b>Section V: The classical monetary models</b>			
Week 10-11	L20	The basic RBC model and microfoundations of money	
	L21	The basic MIU model	
	L22	The basic CIA model	
	L23	The basic shopping time model	
<b>Section VI: The basic New Keynesian model</b>			
Week 12-14	L24	Evidence on nominal rigidities	
	L25-L27	Deriving the basic NK model	
	L28	Application and simulations	PS4
<b>Section VII: Financial crises and unconventional monetary policy</b>			
Week 15	L29	Financial crises	
	L30	Unconventional monetary policy	
		Final exam	

**Emergency Response Recommendations:**

The university maintains guidelines for emergency responses. A list of recommendations when to evacuate and when to find shelter are available at:

[http://illinois.edu/cms/2251/general\\_emergency\\_response\\_recommendations\\_8\\_16\\_13\\_final.docx](http://illinois.edu/cms/2251/general_emergency_response_recommendations_8_16_13_final.docx)

Floor plans for specific buildings are available at:

<http://police.illinois.edu/emergencyplanning/floorplans/>

**Statement on Accommodations:**

To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources Educational Services (DRES) as soon as possible. To contact DRES you may visit 1207 S. Oak Street, Champaign, call 333-4603 (V/TTY), or email a message to [disability@uiuc.edu](mailto:disability@uiuc.edu).

**Academic Integrity:**

*"The University has the responsibility for maintaining academic integrity so as to protect the quality of education and research on our campus and to protect those who depend upon our integrity.*

*Expectations of Students. It is the responsibility of each student to refrain from infractions of academic integrity, from conduct that may lead to suspicion of such infractions, and from conduct that aids others in such infractions. Students have been given notice of this Part by virtue of its publication. Regardless of whether a student has actually read this Part, a student is charged with knowledge of it. Ignorance is not a defense."*

The University's full academic integrity policy is available at:

[http://studentcode.illinois.edu/article1\\_part4\\_1-401.html](http://studentcode.illinois.edu/article1_part4_1-401.html)