

Economics 416
Monetary Theory and Policy
Spring 2024

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Office: Alston 243

Time and Location: MW,12:30 - 1:45 PM, Bidgood 119

Office Hours: by appointment

Course Materials: available on Blackboard Learn

Textbook References:

M&B, Croushore

Money, Banking, and the Financial System, Hubbard and O'Brien

Money, Banking, and Financial Markets, Cecchetti and Schoenholtz

The Economics of Money, Banking, and Financial Markets, Mishkin

Course Evaluation:

Your grade for this course will be based on an average of three exams and five graded (in-class) lab assignments. Each exam will count for 25 percent of your course grade, and the lab average will make up the last 25 percent. None of the three exams will be comprehensive.

$$\text{Final Grade} = [\text{Exam 1} + \text{Exam 2} + \text{Exam 3}] \times 25\% + [\text{Lab Average}] \times 25\%$$

Academic Dishonesty:

The honor code is in effect at all times and especially during each exam. You are expected to complete your work in a manner consistent with the University of Alabama Code of Academic Conduct (<https://studentconduct.sa.ua.edu/code-student-conduct/>).

Lab Policy:

There will be five in-class "lab" assignments administered throughout the semester. The dates for these labs are marked on the course calendar below. My intention is for each assignment to be handed in at the end of the class period on the day the lab is administered. My graduate assistant will grade these assignments and return them to you at the beginning of the next scheduled class. Your cumulative performance on these assignments will comprise the lab component of your final course grade.

Each lab assignment will contain a few open-ended questions that will require you to analyze and discuss a policy scenario using one or more of the economic models developed during lecture. In addition, each lab will feature some empirical questions that involve accessing and evaluating U.S. macroeconomic data from the database maintained by the Federal Reserve Bank of St. Louis. The analysis will mainly consist of graphing, identifying trends and cycles, and computing simple statistics. Please make sure you bring your laptops or tablets to class on these scheduled lab days.

Exam Policy:

All exams must be taken on the scheduled date. For those students who miss one of the first two exams due to either illness or mandatory participation in a university-sanctioned event, your course grade will be determined by re-averaging the remaining exams and all of the lab assignments (first exam - 35%, third exam - 35%, and lab average - 30%). Make-up exams will not be given. If you miss an exam for any reason not mentioned above, you will receive a score of zero. All students must take at least one of the first two exams and the final (third) exam in order to be eligible for a passing grade in the course.

Students are permitted to use either simple or graphing calculators during exams. No cell phones, iPads, laptops, or any other electronic devices capable of taking or storing pictures or sending/receiving messages are allowed. Failure to comply with this rule is considered a violation of the honor code and will result in expulsion from the class.

Course Calendar and Reading List

I. The Federal Reserve System (Jan. 10 & Jan. 17)

- Overview of the Federal Reserve System
- The Three Key System Entities
- Central Bank Independence and Macroeconomic Performance

II. The Money Supply Process (Jan. 22, Jan. 24 & Jan. 29)

- Chapter 17, Cecchetti and Schoenholtz

Lab #1 (Jan. 31)

III. Monetary Policy I: Operating Procedures (Feb. 5 & Feb. 7)

- Divorcing Money From Monetary Policy
- Rewriting Monetary Policy 101

III. Monetary Policy II: Implementation Challenges (Feb. 12 & Feb. 14)

- How the Fed will tighten (August 10, 2015 moneyandbanking.com)
- The Fed's successful tightening (March 27, 2017 moneyandbanking.com)
- The Brave New World of Monetary Policy Operations (June 17, 2019 moneyandbanking.com)
- Perspectives on U.S. Monetary Policy Tools and Instruments
- Why the Fed Should Create a Standing Repo Facility
- The Fed and a Standing Repo Facility: A Follow-Up
- The Fed's Latest Tool: A Standing Repo Facility (January 13, 2022 Liberty Street Economics)

Lab #2 (Feb. 19)

Exam 1 (Feb. 21)

IV. Exchange Rate Policy and the Central Bank (Feb. 26 & Feb. 28)

- Japanese Foreign Exchange Intervention
- The Fed's Foray Into Forex

V. Monetary Policy Goals and Rules (Mar. 4 & Mar. 6)

- What Central Bankers Could Learn from Academics—and Vice Versa
- Fed's New Inflation Targeting Policy (April 6, 2021 Dallas Fed Economics)
- Discretion Versus Policy Rules in Practice

Lab #3 (Mar. 18)

VI. The New Keynesian Model (Mar. 20, Mar. 25, Mar. 27, & Apr. 1)

- Macroeconomic Modeling for Monetary Policy
- The Taylor Principle and Recent FOMC Policy

Lab #4 (Apr. 3)

Exam 2 (Apr. 8)

VII. Bond Pricing and Interest Rates (Apr. 10 & Apr. 15)

- Chapter 4, Cecchetti and Schoenholtz

VIII. The Term Structure of Interest Rates (Apr. 17 & Apr. 22)

- Monetary Policy Actions and Long-Term Interest Rates
- Understanding the Term Structure of Interest Rates
- The Yield Curve as a Predictor of U.S. Recessions
- Have Yield Curve Inversions Become More Likely?

Lab #5 (Apr. 24)

Exam 3 (May. 2, 10:30 AM - 12:30 PM)