OVERVIEW

Over time, the objectives of central banks have proven to be periodically controversial and frequently of poor design. Recent years have witnessed a far deeper understanding of the appropriate goals of central banks and the tools by which monetary policy can achieve its ends. Associated with the improvement in the science underlying monetary policy are a number of examples of policy success, such as the European adoption of a common currency and the American disinflation of the 1980’s. Equally noteworthy is the extent to which the impact of potentially calamitous financial system shocks (such as the Y2K bug and the East Asian crisis) has, in part, been reduced through highly effective management of liquidity by central banks.

This seminar will begin with an overview of financial systems, including topics such as direct financial markets and indirect financial intermediaries. We will then explore the role of public policy in financial markets through an exploration of the conduct and objectives of central banks. Particular attention will be paid to international and domestic evidence concerning monetary policy’s influence on growth, inflation, and exchange rates as well as topics of credibility, monetary policy rules, the political economy of monetary policy, and inflation targeting. Subsequently, we will consider the impact of central banks on private banks in order to ascertain the nature of the monetary transmission mechanism. Finally, we will investigate the role of private banks in generating economic growth and how this role has evolved in light of potential alterations to the banking regulatory framework. Once this range of topics has been explored, seminar participants will have an opportunity to choose a research focus which they find uniquely interesting and further investigate relevant existing research and empirical evidence.
Formal Requirements

Class Participation

During our time together in class, I highly encourage questions regarding the course material. In addition, I will often pose questions regarding the course material to the class at large. Please attempt to answer these questions to the best of you ability since simply attempting to answer will benefit you in the form of class participation points.

Research Paper

The material we cover in this course will provide you with a number of topics in monetary economics which are appropriate for research. You will choose a topic, compile a set of references from refereed journals, and author a paper on your topic of choice. Your paper should include an empirical test of a theory (either pre-existing or of your own design).

There are a number of stages and deadlines associated with the completion of your paper. Each stage and deadline is listed below.

Peer Review

As part of the research seminar, you will be required to read and draft a written critique of your classmate’s papers. The quality of this three page “referee report” will be reflected in your final grade. In particular, the report should contain a summary of the paper’s objectives, the strong points of the paper, the areas which seem to need improvement, and suggestions for changes to the paper.

Summary of formal requirements and grading

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<thead>
<tr>
<th>Assignment</th>
<th>Worth</th>
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<tr>
<td>Class Participation</td>
<td>5%</td>
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<tr>
<td>Proposal and Bibliography</td>
<td>20%</td>
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<tr>
<td>Outline</td>
<td>20%</td>
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<tr>
<td>Referee Report</td>
<td>10%</td>
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<tr>
<td>Research Paper</td>
<td>50%</td>
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<tr>
<td>Presentation</td>
<td>5%</td>
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Late and Missing Assignments

Late assignments must be handed in within a week of the due date. You will only receive, at most, 50% of the credit associated with the late assignment.
Studying Guidelines

The following are a minimum set of guidelines you should follow in order to maximize the likelihood of success in this class. The order of these suggestions is not arbitrary, this list is not exhaustive:

1. **Complete all assigned readings before we cover the material in class.** In this class, we will be reading articles which are written by and for macroeconomists. You will find most of these articles challenging. As a result, I strongly suggest you attempt to read these articles well in advance.

   In addition, you will be required to submit, on-line, one question regarding the assigned readings and answer one question, on-line, from one of your classmates.

2. **Take notes in class.** While it may seem like concepts are coming across clearly in class, it can often be difficult to remember the details of our discussions without a good set of notes. Should you miss a class (either physically or mentally), be sure to obtain high-quality notes from a classmate.

3. **Start on your paper early.** Research is a time-intensive process subject to numerous vagaries. You should plan on beginning your research early in order to ensure sufficient time to allow for unforeseen interruptions to your progress.
### Schedule

**Week 1: Introduction: Macroeconomic Models & Monetary Policy**  
1/08-1/16  
*IS/LM, AD/AS, Central Banking.*

**Week 2: Money and Inflation**  
1/20-1/23  
*Theory and Empirical Evidence.*

**Week 3: Money and Growth**  
1/26-1/30  
*Theory and Empirical Evidence.*

**Week 4: The Conduct of Monetary Policy**  
2/2-2/6  

**Week 5: Private Banking: Regulation in Theory and Practice**  
2/9-2/13  
*Political Economy of Regulation, The Interaction of Regulation and Monetary Policy*

**Week 6: Empirical Methods and Data Sources**  
2/17-2/20  
*Recap of OLS, Time Series, On-line Data*

**Week 7: Paper Proposal and Bibliography Due**  
2/25

**Week 9: Outline Due**  
3/10

**Week 12: First Draft Due**  
4/07

**Week 13: Referee Report Due**  
4/14

**Week 14: Final Research Paper Due**  
4/21

**Week 15: Presentations**  
4/26-4/29