

Econ 422: Monetary Economics
Queen's University
Winter 2019

Time and Location:

Tuesday, 11:30-12:50pm; Friday, 1:00-2:20pm; at MacDonald 2

Instructor: Hongfei (Amy) Sun

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Course Webpage: <http://qed.econ.queensu.ca/faculty/hfsun/Econ422.htm>

Office Hours: Friday, 10:00am - noon

Teaching Assistant: TBA

Objective:

This course introduces an essential list of theories and techniques in monetary economics. On the theoretical side, we will encounter the equilibrium asset-pricing theory and various approaches to modelling money as a medium of exchange. On the policy side, we will explore topics such as the Lucas supply curve, the choice of monetary policy rules versus discretion, and the liquidity effect of open market operations. All of these theories and techniques emphasize the interactions between macroeconomic phenomena and individuals' decisions.

Course Requirements:

The prerequisite of this course is Econ 320 and cannot be waived. A student's final grade in the course will depend on his/her performance on 2 assignments, a midterm exam and a final examination. The weighting of grades will be the maximum of the following two weighting methods:

	Weighting Method I	Weighting Method II
Assignments	20%	20%
Midterm	30%	15%
Final Exam	50%	65%

A student must work individually and independently on all the assignments. A late assignment submitted within 24 hours over the deadline will count as half of the assignment credit. Any assignment submitted more than 24 hours over the deadline will NOT be given any credit. **The midterm exam will be held on Tuesday, March 5, in class.**

Course Outline (subject to modification as we proceed):

All reading materials are posted at the course website.

1. Money and Monetary Economics
2. Elements of an intertemporal economy
 - Agents, goods and assets
 - Budget constraints
 - Intertemporal maximization
 - The Lagrangian method
 - Competitive equilibrium
3. Government finance and asset pricing
 - Government finance and intertemporal constraint
 - Ricardian equivalence
 - Bond price and the real interest rate
 - Asset pricing formula
4. Economies with longer horizons
 - A three-period model
 - Bond maturity and the term structure of interest
 - An infinite-horizon economy
3. Monetary policy
 - Bank of Canada operations
 - Policy and instruments
 - Federal Reserve System
6. Money and interest rates
 - The value of unbacked government currency
 - Inflation and interest rates
 - Seignorage, debts, and neutrality
 - Welfare cost of inflation
7. A positive theory of inflation
 - Credibility and commitment
 - Second-best monetary policy
 - Discretion and the third-best policy
8. Monetary policy under uncertainty

- Aggregate shocks and commitment
- Equilibrium under discretion
- Delegation and independent central bank

9. Reputation and monetary policies

- Reputation and Bayes' rule
- Reputation equilibria

10. Search model of money

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Statement on Academic Integrity

Academic integrity is constituted by the five core fundamental values of honesty, trust, fairness, respect and responsibility (see www.academicintegrity.org). These values are central to the building, nurturing and sustaining of an academic community in which all members of the community will thrive. Adherence to the values expressed through academic integrity forms a foundation for the "freedom of inquiry and exchange of ideas" essential to the intellectual life of the University (see the Senate Report on Principles and Priorities)

Students are responsible for familiarizing themselves with the regulations concerning academic integrity and for ensuring that their assignments conform to the principles of academic integrity. Information on academic integrity is available in the Arts and Science Calendar (Academic Regulation 1), on the Arts and Science website (see <http://www.queensu.ca/calendars/artsci/pg4.html>), and from the instructor of this course.

Departures from academic integrity include plagiarism, use of unauthorized materials, facilitation, forgery and falsification, and are antithetical to the development of an academic community at Queen's. Given the seriousness of these matters, actions which contravene the regulation on academic integrity carry sanctions that can range from a warning or the loss of grades on an assignment to the failure of a course to a requirement to withdraw from the university.

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