

ADVANCED MONETARY THEORY ECONOMICS EC 3330B-001

Department of Economics
Western University

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Classroom Meeting Times and Locations:

Tuesday, 9:30-11:30, FNB 2240

Thursday, 9:30-10:30, SSC 2032

Course Website: <https://owl.uwo.ca/portal>

Undergraduate Inquiries: 519-661-3507 SSC Room 4075 or econugrd@uwo.ca

Registration

You are responsible for ensuring you are registered in the correct courses. If you are not registered in a course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://student.uwo.ca>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

Prerequisite Note

The prerequisites for this course are **Economics 2221A/B** and **Economics 2261A/B**.

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an anti-requisite course. Lack of pre-requisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Course Description

This is an advanced undergraduate course in monetary economics, monetary policy, banking, and financial markets. These are some of the questions we will address: What is money and why is it useful? What are the goals of monetary policy and how are they achieved? What causes instability in the banking system? How do financial markets work?

Course Learning Outcomes

- Construct the basic search model, and show how money solves the double coincidence problem.
- Show how the search model can explain over-the-counter trade in assets, bid-ask spreads, and trade volume.
- Use the cash-in-advance model to illustrate the determinants of real and nominal interest rates and inflation.
- Show how the Friedman rule minimizes the costs of inflation in the cash-in-advance model.
- Explain the fiscal theory of the price level.
- Show how liquidity effects work.
- Construct the simple New Keynesian Model.
- Explain the role of monetary policy in the New Keynesian model.
- Show what the Taylor rule implies for macroeconomic performance.
- Explain the principles of Neo-Fisherism.
- Construct the Diamond-Dybvig model.
- Explain the role for banking in the Diamond-Dybvig model.
- Show how banking panics can arise in the Diamond-Dybvig model.

Grading

Midterm 1:	20%
Midterm 2:	20%
Assignments:	20%
Final Exam:	40%

Exams

There will be two midterm exams, and a final exam. These will be closed-book and closed-note exams, and electronics-free. Collaboration between students during the writing of exams is strictly prohibited. All exams are cumulative, with emphasis on the more recent material. There will be no makeup mid-term exams. If a student misses a mid-term exam due to sickness or other acceptable excuse, the student must present an official document justifying the absence, and the weight of the exam will be transferred to the final exam.

Assignments

Assignments are to be submitted to me on the due date. Either give your completed assignment to me in class, or drop it off at my office. There will be five assignments. Your lowest assignment score will be dropped when calculating your grade. You are encouraged to cooperate on assignments, but each student must hand in their own assignment, and acknowledge any cooperation with other students, listing names at the top of the first page of the assignment. Late assignments will be accepted up to two days late, with a penalty of 10% per day.

Scholastic Offenses

Scholastic offenses are taken seriously, and students are directed to read the appropriate policy, specifically the definition of what constitutes a scholastic offense, at:

https://www.uwo.ca/univsec/pdf/academic_policies/appeals/scholastic_discipline_undergrad.pdf

Timetable

January 16:	Assignment 1 posted.
January 23:	Assignment 1 due; Assignment 2 posted.
January 30:	Assignment 2 due.
February 13:	Midterm 1.
February 27:	Assignment 3 posted.
March 6:	Assignment 3 due; assignment 4 posted.
March 13:	Assignment 4 due.
March 20:	Midterm 2.
March 29:	Assignment 5 posted.
April 5:	Assignment 5 due.

Preliminary Outline

1. Search, Money, and Over-the-Counter Markets
 - a. A basic model of the double coincidence problem: monetary exchange.
 - b. The model adapted to over-the-counter asset trading.
2. Cash-In-Advance Models
 - a. Real and nominal interest rates, and inflation.
 - b. The welfare cost of inflation.
 - c. Optimal monetary policy and the Friedman rule.
 - d. Fiscal theory of the price level.
 - e. Segmented markets and liquidity effects.
3. New Keynesian Economics
 - a. A simple New Keynesian model.
 - b. The Taylor rule.
 - c. Perils of the Taylor rule.
 - d. Neo-Fisherism.
4. Banking

- a. The Diamond-Dybvig model.
- b. Banking panics.

Readings

Readings will be posted on the Owl site, under “Resources” and “Readings.”

Williamson, S. “Notes on Search, Money, and Over-the-Counter Markets”

Williamson, S. “Notes on Cash-in-Advance”

Williamson, S. “Notes on Fiscal and Monetary Policy”

Williamson, S. “Notes on Segmented Markets”

Williamson, S. “Inflation Control: Do Central Bankers Have it Right?”

<https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbmwxOTU0c3RlcGhlbnRpbGxpYW1zb258Z3g6NTM3YTdlNGNjYzUzNjI1NQ>

Williamson, S. “Notes on the Diamond-Dybvig Model”

Please Note
Department Policies for 2017 – 2018

Remember that the University expects all students to take responsibility for their own academic Programs. Also, remember to check your registration to make sure you are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at <http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations” <http://westerncalendar.uwo.ca/2017/pg136.html>.
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other economics courses or programs. The University may impose further penalties such as a notation on your official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. Whenever students take an idea or a passage from another author, they must acknowledge it by using quotation marks where appropriate and referencing with footnotes or citations. Plagiarism is a major academic offence (see Scholastic Offence Policy in the current UWO Academic Calendar at <http://westerncalendar.uwo.ca/2017/pg113.html>).

The University of Western Ontario uses software to check for plagiarism and students may be required to submit their written work in electronic form. Those found guilty will have penalties imposed as noted in point 3.

5. It is Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students are responsible for submitting assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the University’s Procedures in the current UWO Academic Calendar (<http://westerncalendar.uwo.ca/2017/pg112.html>). Please note the relevant deadlines.

The Department will not consider any appeal unless an attempt has been made to settle the matter first with your instructor. If after this discussion you remain dissatisfied with a grade or other decision, you may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for your appeal. A useful form and checklist is provided at (http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals).

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.

8. Note the following add and drop deadlines:

Last day to **add** a 2nd term half course:

Tuesday, January 16th, 2018

Last day to **drop** 2nd term half course without academic penalty:

Wednesday, March 7th, 2018

9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is not an excuse for a make-up. This rule applies to all mid-term tests and final exams in the Department of Economics.

Policy Regarding Makeup Tests and Final Examinations

*Academic accommodation will **not** be granted automatically on request. You **must** demonstrate by documentation that there are **compelling** medical or compassionate grounds before academic accommodation will be considered.*

If you decide to write a test or an examination, you must be prepared to accept the mark you earn. Rewriting tests or examinations, or having the value of the test or examination reweighted on a retroactive basis, is **not** permitted. Book airline flights after you know the dates of your final examinations. Airline flights must not conflict with test or final exams.

If you are requesting a makeup test for a midterm or a final examination, unless medically incapable, notify your instructor by email or phone, preferably prior to the scheduled date of the test, but definitely within **24 hours** of the date of the test or exam. Failure to follow this procedure may result in denial of a request for academic accommodation or result in a grade of zero. Set up an appointment as soon as possible to meet personally with your instructor. If the instructor is not available, you may send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca (Social Science Room 4075). **Notifying your instructor of a missed test or exam does not automatically entitle you to a makeup test.**

Students who seek a makeup test or examination must provide medical or other relevant verification that their absence from a regularly scheduled test or examination is beyond their control. Documentation must support your reasons. Medical documentation should be given to the Academic Counselling Office of your *home* Faculty **as soon as possible (preferably within 24 hours of the test)** if you know you may not be able to write your final examination on the scheduled day and time. Failure to follow this procedure, or to provide supporting documentation, may result in denial of a request for academic accommodation or result in a grade of zero. If your documentation is not acceptable, you will be given a zero for the missed test.

For personal illness, if you consult Student Health Services regarding your illness or personal problem, you should request a Student Medical Certificate from the physician. If you were seen by an off-campus doctor, obtain a certificate from his/her office at the time of your visit. The off-campus medical certificate form must be used and can be found at: http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf. Notes stating "For Medical Reasons" are not considered sufficient.

For any other circumstances, if you are not sure what documentation to provide, ask your Academic Counsellor. If your documentation is judged sufficient, the Academic Counsellor will issue a Recommendation for a Special Examination (a single form for midterms or a triple color form for final examinations). Once you have this form, contact your instructor as soon as possible to make arrangements. Even if approved from your home faculty Academic Counsellor, there is no guarantee that you will be allowed to write the makeup test and exam.

For final examinations, you need permission from your *home* Faculty Counsellor, your instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in an examination grade of zero. You must ensure that the Special Examination form has been signed by the instructor and Department Undergraduate Director and that the form is returned to the Academic Counselling Office for approval without delay. Make-up final examinations, if permitted, will be written within one month of the end of the exam period.

Policies Regarding Academic Accommodation

Information about the Faculty of Social Science's policies regarding academic accommodation is found on its website at <http://counselling.ssc.uwo.ca/procedures/havingproblems.asp> or in Social Science Room 2105. Your "Academic Rights and Responsibilities" are also outlined in the current UWO Calendar at <http://westerncalendar.uwo.ca/2017/pg111.html>. Claiming that "you didn't know what to do" is not an acceptable excuse for not following the stated procedures.

Policy Regarding Class Attendance

If your instructor views your class attendance as unsatisfactory, you can be prohibited from writing the final examination. If there is intent to make use of this University policy, you will be notified in writing.

Statement on Mental Health and Support Services

If you or someone you know is experiencing emotional/mental distress, there are several resources here at Western to assist you. Please visit <http://www.uwo.ca/uwocom/mentalhealth/> for more information and a complete list of resources, as well as how to obtain help.