

# ADVANCED MONETARY THEORY ECONOMICS EC 3330B-001

Department of Economics  
Western University

**Instructor:** Steve Williamson **January 2020**  
**Office:** 4042 SSC  
**Phone:** (519) 661-2111 ext. 85232  
**E-mail:** [swilli22@uwo.ca](mailto:swilli22@uwo.ca)  
**Office Hours:** Monday 3:00-5:00 pm, Thursday 10:30-12:00 pm.  
**Teaching Assistant:** Zijian Wang, [zwang727@uwo.ca](mailto:zwang727@uwo.ca)  
**Classroom Meeting Times and Locations:**  
Tuesday, 9:30-11:30, UCC 67  
Thursday, 9:30-10:30, UCC 67  
**Course Website:** <https://owl.uwo.ca/portal>  
**Undergraduate Inquiries:** 519-661-3507 SSC Room 4075 or [econugrd@uwo.ca](mailto: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.
- Show how monetary policy affects stock prices, using the cash-in-advance model.
- Construct the cash-in-advance model with cash and credit as means of payment.
- 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 has been officially excused from a midterm exam, 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 six assignments. You are encouraged to cooperate on assignments, but each student must hand in their own assignment.

## 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](https://www.uwo.ca/univsec/pdf/academic_policies/appeals/scholastic_discipline_undergrad.pdf)

## Timetable

<b>January 21:</b>	Assignment 1 due.
<b>January 28:</b>	Assignment 2 due.
<b>February 4:</b>	Midterm 1.
<b>February 25:</b>	Assignment 3 due.
<b>March 3:</b>	Assignment 4 due.
<b>March 10:</b>	Midterm 2.
<b>March 24:</b>	Assignment 5 due.
<b>March 31:</b>	Assignment 6 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. Stock prices and inflation.
  - e. Cash and credit.
3. New Keynesian Economics
  - a. How monetary policy works in New Keynesian models – the “cashless 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.”

1. Williamson, S. “Notes on Search, Money, and Over-the-Counter Markets”
2. Williamson, S. “Notes on Cash-in-Advance”
3. Williamson, S. “Two Applications of Cash in Advance: Stock Prices and Inflation and Cash/Credit”
4. Williamson, S. “Notes on Monetary Policy in New Keynesian Models”
5. Williamson, S. “Inflation Control in New Keynesian Models”
6. Williamson, S. “Notes on the Diamond-Dybvig Model”

## Please Note Department Policies for 2019-2020

Remember that the University expects all students to take responsibility for their own Academic Programs. Students should also check their registration to ensure they 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://www.uwo.ca/univsec/pdf/academic\\_policies/exam/administration.pdf](http://www.uwo.ca/univsec/pdf/academic_policies/exam/administration.pdf).
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 an official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. When taking an idea/passage from another author, it must be acknowledged with quotation marks where appropriate and referenced with footnotes or citations. Plagiarism is an academic offence (see Scholastic Discipline for Undergraduate Students in the Western Calendar at [http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page\\_20](http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_20)).

Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3.

5. It is a Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students must submit assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the Student Academic Appeals section in the current Western Academic Calendar at:  
[http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page\\_14](http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_14)

Please note the relevant deadlines.

The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for their appeal. A checklist is provided at: [http://economics.uwo.ca/undergraduate/program\\_counselling/responsibilities\\_policies.html#appeals](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:  

Deadline to <u>add</u> a second term half course:	<b>Tuesday January 15, 2019</b>
Deadline to <u>drop</u> a second term half course:	<b>Thursday March 7, 2019</b>
9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is NOT grounds for a makeup. This rule applies to midterm and final exams in the Department of Economics.

### **Policy Regarding Makeup Tests and Final Examinations**

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

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or having their value reweighted on a retroactive basis, is **not** permitted. Students must also book travel arrangements AFTER final exam dates have been posted as they must not conflict with test or final exams.

For personal illness, students may consult Student Health Services and request a Student Medical Certificate from the physician. If assessed by an off-campus doctor, students must obtain a certificate from his/her office at the time of the visit. The off-campus medical certificate form must also be used and can be found at:  
[http://www.uwo.ca/univsec/pdf/academic\\_policies/appeals/medicalform.pdf](http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf).

Notes stating "For Medical Reasons" are not considered sufficient.

For religious or compassionate circumstances, students should ask their Academic Counsellor what documentation to provide. If 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 exams). Once students have this form, they must contact their instructor as soon as possible to make arrangements. Even if approved by their Academic Counsellor, there is no guarantee that students will be allowed to write the makeup test/exam.

For final examinations, students need to seek permission from their *home* Faculty Counsellor, Instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in a grade of zero. Students 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. If approved, makeup examinations will be written within one month of the end of the exam period.

### **Policies Regarding Academic Accommodation**

The Faculty of Social Science's policies regarding academic accommodation is found at [http://counselling.ssc.uwo.ca/procedures/having\\_problems/index.html](http://counselling.ssc.uwo.ca/procedures/having_problems/index.html).

“Academic Rights and Responsibilities” are also outlined in the Western Calendar at <http://westerncalendar.uwo.ca/PolicyPages.cfm?PolicyCategoryID=1&command=showCategory&SelectedCalendar=Live&ArchiveID=>. 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 the instructor deems a student’s class attendance as unsatisfactory, that student may be prohibited from writing the final examination. If there is intent to make use of this University policy, the student will be notified in writing.

### **Statement on Mental Health and Support Services**

Students under emotional/mental distress should visit [http://uwo.ca/health/mental\\_wellbeing/](http://uwo.ca/health/mental_wellbeing/) for more information and a complete list of resources on how to obtain help.