

Econ 153: Monetary Economics

Duke University
Spring 2011

Instructor: J. Marcelo Ochoa
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Office Hours: Th 4:30–6:00, or by appointment (Social Sciences Bldg. 325L)

Class: Physics 227 WF 2:50–4:05
Class Website: http://connect.mcgraw-hill.com/class/econ153_spring_2011

Course Description: ECON 153 is an introductory course to money, banking, and financial markets. In the first part of the course, we develop the financial theory required to understand the determination of interest rates, the valuation of different financial instruments, and the workings of financial markets. In this section we will study bonds, stocks, and derivatives, as well as exchange rates for foreign currencies. We will discuss financial markets and its role is assessing the value and risk associated to financial instruments. The second part of the course describes the workings of central banks, specially the Federal Reserve Bank. We will discuss the role and objectives of central banks, which leads naturally to the principles that guide central bank design. The third part of the course uses the material in parts I and II as a foundation to introduce modern monetary economics. In this section we cover a complete dynamic macroeconomic model to understand the the determination of inflation and output, the relationship between inflation and money growth, the sources of business cycle fluctuations, and the role of monetary policy.

Prerequisites: ECON 105D and 110D.

Text: Cecchetti, S. and K. Schoenholtz (2009), *Money, Banking & Financial Markets*, 3th Edition, McGraw-Hill.

Students Resources: www.mhhe.com/cecchetti3e.

Honor code: As members of Duke University you have committed to abide by the Duke Community Standard. I will assume that no student will submit the work of others as of his or her own. Cheating, plagiarism, and violations of the University's honor code will be reported to the department chair, and may result in failure of the assignment or the

course, or expulsion from the University.

Grading: The grades will be determined as follows:

In class-presentations:	10%	
Assignments:	20%	
Mid-term exam:	30%	– covers material covered up to that point
Final:	40%	– covers <u>all</u> the material covered in class

Attendance, readings, in-class participation: You are advised to attend every lecture, since most topics will be covered in more depth than in the textbook. You are expected to participate in-class, read assigned sections of the text and supplemental material.

Any exam missed for a non-legitimate reason will be accorded the grade of 0. Any exam missed for a legitimate reason will be made up as soon it can be scheduled by EcoTeach.

Each week several students will prepare a presentation on an assigned section of the book, or a specific question relevant to the material covered in class.

Grading disputes: All grades are assigned considering carefully the work you present. Any grading disputes on assignments or the mid-term exam must be submitted to me in writing within 1 week of the receipt of the disputed assignment or the mid-term exam. In your dispute, you must state clearly how your answer compares to the answer I provided, and how many points you consider you should receive and why. Once I receive your request, I will regrade the whole exam and reallocate points if deemed appropriate. No verbal disputes will be accepted. The final exam will not be returned. Students wanting to review their final or appeal their overall semester grade can do so as soon as grades are put up.

Assignments: You are encouraged to discuss the assigned problems with your classmates but you should turn in your own solutions. Working together on quizzes or exams, of course, is expressly forbidden. The worst grade obtained will be dropped when computing the average grade from assignments.

Special arrangements: Let me know if you have a disability that may require some modifications on the class requirements. Visit the Student Disability Access Office for more information.

Tentative Course Outline:

Part 0: Money, Banking and Financial Markets

Weeks Jan. 12–19 Money and the Financial System
Readings: Chapters 1–3

Part 1: Financial Instruments, and Financial Markets

Week Jan. 21–28 Interest Rates and Risk
Readings: Chapters 4 – 5

Week Feb. 2–4 Bonds, Bond Prices, and the Determination of Interest Rates
Readings: Chapters 6 and 8 (selected sections)

Week Feb. 9–11 The Risk and Term Structure of Interest Rates
Readings: Chapters 7

Week Feb. 16–18 Foreign Exchange
Readings: Chapters 10

Mid-term Exam Feb. 23

Part 2: Central Banks and Monetary Policy

Week Feb. 25 Financial Institutions
Readings: Chapter 11–12

Week March 2–4 Central Banks in the World and The Federal Reserve Bank
Readings: Chapters 15 – 17

Week March 16–18 Monetary Policy
Readings: Chapters 18

Week March 23–25 Exchange Rate Policy
Readings: Chapters 19

Part 3: Modern Monetary Economics

Week March 30-April 1	Money Growth, Money Demand, and Monetary Policy Readings: Chapter 20
Week April 6-8	Output, Inflation, and Monetary Policy Readings: Chapter 21
Week April 13-15	Business Cycle Fluctuations Readings: Chapter 22
Week April 20-27	Modern Monetary Policy Readings: Chapter 23

Final Exam May 7