

Monetary policy

Course code	<i>GRAE012</i>
Compulsory in the programmes	<i>Financial Economics</i>
Level of studies	<i>Graduate</i>
Number of credits	<i>6 ECTS (36 contact hours + 2 consultation hours, 124 individual work hours)</i>
Course coordinator (title and name)	<i>Tomas Reichenbachas</i>
Prerequisites	<i>Macroeconomics</i>
Language of instruction	<i>English</i>

THE AIM OF THE COURSE:

This course will analyse a range of current questions in monetary economics through a variety of lenses. Students will develop a critical understanding of both theoretical and empirical strategies used in the literature. We will study the evolving role of the central bank, starting from the importance of its independence, considering the role of commitment and credibility in monetary policy, and progressing to the frontier of unconventional monetary policy (such as forward guidance and quantitative easing) and macroprudential policy. The recent experience of the Great Recession followed by disinflation and post-Covid increase in inflation have raised questions in effectiveness of monetary policy. At the same time, new methods to address these challenges have been developed, and new tools have been used. We will also explore a variety of other topics in monetary economics, including financial stability issues, exchange rate regimes, sovereign debt, and the European debt crisis. The students will also gain practical experience in research, report writing, and organizing and delivering professional presentations. The course requires a substantial amount of preparation by the students and active involvement during and outside of class. Feedback from students regarding course content and delivery is always welcome. The students will be asked to read various articles before every lecture and be prepared to discuss those articles in class.

Learning objectives for Master of Social Science

Programme:
Financial Economics

Learning Goals	Learning Objectives
Students will be critical thinkers	LO1.1. Students will be able to identify underlying assumptions, limitations of previous research; evaluate managerial solution alternatives.
	LO1.2. Students will become independent learners and develop their own comprehension of scientific theories, models, and concepts.
Students will be socially responsible leaders	LO2.1. Students will be able to evaluate past and current practices in their discipline from an ethical perspective .
Students will be effective communicators	LO3.1. Students will develop and deliver a coherent oral presentation .
	LO3.2. Students will develop and deliver a coherent written research paper .

MAPPING OF COURSE LEVEL LEARNING OUTCOMES (OBJECTIVES) WITH DEGREE LEVEL LEARNING OBJECTIVES (See Annex), ASSESMENT AND TEACHING METHODS

Course level learning outcomes (objectives)	Degree level learning objectives (Number of	Assessment methods	Teaching methods

	LO)		
CLO1. Students will learn to understand monetary policy research in the field of economics, how actions of the central banks affect various economic agents and overall economy.	LO1.1. LO1.2.	Written project, final exam	Lectures, seminars
CLO2. Students will learn to predict monetary policy responses to changing economic conditions. Describe monetary policy transmission channels in the context of monetary theories.	LO1.2.	Written project, final exam	Seminars, project development
CLO3. Students will develop and deliver a presentation of their project work, providing the skills needed to present results and implications monetary policy research in practice.	LO3.1.	Project presentation	Seminars, project development
CLO4. Conceptualize, research and write a state of the art review of a chosen area of financial economics and analyse empirical data on the phenomenon under investigation; be able to evaluate the appropriateness of the use of social science research methods, both qualitative and quantitative, including a number of different econometric tools, in a particular context.	LO1.1 LO1.2 LO 3.2.	Written project	Lectures, seminars, project development

ACADEMIC HONESTY AND INTEGRITY

The ISM University of Management and Economics Code of Ethics, including cheating and plagiarism are fully applicable and will be strictly enforced in the course. Academic dishonesty, and cheating can and will lead to a report to the ISM Committee of Ethics. With regard to remote learning, ISM remind students that they are expected to adhere and maintain the same academic honesty and integrity that they would in a classroom setting.

COURSE OUTLINE

Topic	In-class hours	Readings
Introduction to the course Role of monetary policy Tool of modern macroeconomic research (1) <ul style="list-style-type: none"> • <i>IS-LM model.</i> 	4	See required and additional reading list below.
Tool of modern macroeconomic research (2) <ul style="list-style-type: none"> • <i>AD-AS model.</i> • <i>New Keynesian economics</i> • <i>Philips curve</i> 	4	See required and additional reading list below.
Impact of monetary policy	4	See required and additional reading list below.
Conventional monetary policy Unconventional MP: <ul style="list-style-type: none"> • <i>The need for unconventional monetary policy</i> • <i>Quantitative easing (QE) and quantitative tightening (QT)</i> • <i>Negative Interest Rates</i> 	4	See required and additional reading list below.
Monetary policy and financial stability: <ul style="list-style-type: none"> • <i>Financial crisis</i> • <i>A Macroprudential Approach to Financial Regulation</i> 	4	See required and additional reading list below.

Fiscal policy and monetary policy <ul style="list-style-type: none"> Public Debt and Low Interest Rates. Debt and economic growth 	4	See required and additional reading list below.
Monetary Policy Frameworks in a Global Context <ul style="list-style-type: none"> Why does Central bank need a dual mandate? Inflation Targeting in Emerging Market Economies Monetary policy in Resource-Rich Countries Euro <ul style="list-style-type: none"> Optimum Currency Areas. Sovereign debt crisis Risk of the Grexit 	4	See required and additional reading list below.
Project presentations (1)	4	None
Project presentations (2) Course wrap up	4	None
	Total: 36 hours	
CONSULTATIONS	2	
FINAL EXAM	2	

FINAL GRADE COMPOSITION

Type of assignment	%
Proactive participation in discussion	10%
Project presentation and the Written project	40 (20+20)%
Final exam	50%
Total:	100

DESCRIPTION AND GRADING CRITERIA OF EACH ASSIGNMENT

(Provide short descriptions and grading criteria of each assignment)

Every student will have to prepare individual report on proposed monetary policy topic and make a 15–20-minute presentation in the classroom which will be followed by questions and discussion (20%). The presentation will be evaluated based on how clearly the main points are presented in an accessible manner to fellow students. Report on presented topic (up to three pages) should be sent by email (20%). The other part of the individual component will consist of the final exam (50%), which will have a selection of multiple choice and open questions, testing students' knowledge on the monetary policy concepts and requiring their application to the small tasks given as open questions.

RETAKE POLICY

Retake covers the final exam (50%) and the written project (20%) parts. The retake will be more extensive than the final exam, requiring to demonstrate not only understanding of monetary policy, but also its application as should be done in the written project. Presentation and participation parts cannot be retaken but its evaluation (if positive) is not annulled.

ADDITIONAL REMARKS

None

REQUIRED AND ADDITIONAL READINGS (required in bold)

Role of monetary policy

- Friedman, Milton. 1968. "**The Role of Monetary Policy.**" *American Economic Review* 58(March): 1-17.
- Bernanke, Ben S. 2013. "**A Century of U.S. Central Banking: Goals, Frameworks, Accountability.**" *The First 100 Years of the Federal Reserve: The Policy Record, Lessons Learned, and Prospects for the Future*, 0-24.

Tool of modern macroeconomic research

- Mankiw NG. **Macroeconomics**, 7th Edition. Worth Publishers; 2010. Chapter 9-14. <https://jollygreengeneral.typepad.com/files/n.-gregory-mankiw-macroeconomics-7th-edition-2009.pdf>
- Blanchard O. (2016) The US Phillips Curve: Back to the 60s? <https://www.piie.com/sites/default/files/documents/pb16-1.pdf>
- What Is the Phillips Curve (and Why Has It Flattened)? <https://www.stlouisfed.org/open-vault/2020/january/what-is-phillips-curve-why-flattened>

Conventional monetary policy

- Taylor, John B. 1993. "**Discretion Practice versus Policy Rules in Practice.**" *Carnegie-Rochester Conference Series on Public Policy* 39: 195-214.
- Mishkin, Frederic. 2004. "Why the Federal Reserve Should Adopt Inflation Targeting." *International Finance*, No. 1.
- Benjamin Friedman. 2004 "Why the Federal Reserve Should Not Adopt Inflation Targeting." *International Finance*, No. 1.

Unconventional monetary policy:

The need for unconventional monetary policy

- Hansen, Alvin. 1939. "Economic Progress and Declining Population Growth." *American Economic Review* 29, no. 1: 1-15.
- Krugman, Paul R. 1998. "It's Baaack: Japan's Slump and the Return of the Liquidity Trap." *Brookings Papers on Economic Activity* 29, no. 2: 137-205.
- Bernanke, Ben S. 2015. "**Monetary Policy Since the Onset of the Crisis.**" *Federal Reserve Bank of Kansas City Economic Symposium*, 1-13. Link.
- Summers, Lawrence H. 2013. "**Speech given at IMF Fourteenth Annual Research Conference in Honor of Stanley Fischer.**" Washington, November 8. <http://larrysummers.com/imf-fourteenth-annual-research-conference-in-honor-ofstanley-scher/>.
- Constancio, Vitor. 2016. "**The Challenge of Low Real Interest Rates for Monetary Policy.**" Lecture given at Macroeconomics Symposium at Utrecht School of Economics, Utrecht, June 15. <https://www.ecb.europa.eu/press/key/date/2016/html/sp160615.en.html>.

Quantitative easing (QE) and quantitative tightening (QT)

- Bernanke, Ben S. 2015. "**Monetary Policy Since the Onset of the Crisis.**" Federal Reserve Bank of Kansas City Economic Symposium, 1-13.
- Mckay, Alisdair, Emi Nakamura, and Jon Steinsson. 2014. "The Power of Forward Guidance Revisited."
- Vissing-Jorgensen, Annette, and Arvind Krishnamurthy. 2011. "**The Effects of Quantitative Easing on Interest Rates: Channels and Implications for Policy.**" *Brookings Papers on Economic Activity* (Fall): 215-87..
- Blinder, Alan S. 2010. "Quantitative Easing: Entrance and Exit Strategies." *Federal Reserve Bank of St. Louis Review* 92(6): 465-80.

Negative Interest Rates

- Garbade, Kenneth, and Jamie McAndrews. 2012. "**if Interest Rates Go Negative Or, Be Careful What You Wish For.**" Liberty Street Economics. (August 17, 2015).

Monetary policy and financial stability

- Lim, C et al. 2011. "Macroprudential Policy: What Instruments and How to Use Them? Lessons from Country Experiences."
- Hanson, Samuel G, Anil K Kashyap, and Jeremy C Stein. 2011. "**A Macroprudential Approach to Financial Regulation.**" *Journal of Economic Perspectives* 25(1): 3-28. Link.

Fiscal policy and monetary policy

- Reinhart, Carmen M, and Kenneth S Rogo_. 2012. "**Debt Overhangs: Past and Present.**" NBER Working Paper No. 18015.Link.
- Blanchard, Olivier. 2019. "**Public Debt and Low Interest Rates.**" *American Economic Review*, 109 (4): 1197-1229.

Euro

- Mundell, Robert A. 1968. "A Theory of Optimum Currency Areas." In *International Economics*, New York: Macmillan, 177-86.
- Lane, Philip R. 2006. "The Real Effects of European Monetary Union." *Journal of Economic Perspectives* 20(4): 47-66.
- Grauwe, Paul De. 2010. "**Crisis in the Eurozone and How to Deal with It.**" Centre for European Policy Studies Policy Briefs (204): 1-6.
- Christodoulakis, Nicos. 2013. "**From Grexit to Growth: On Fiscal Multipliers and How to End Recession in Greece.**" *National Institute Economic Review* (224): 66-76.
- Krugman, Paul R. 1998 **Revenge of the Optimum Currency Area**
- Krugman, Paul R. 1998 **The Euro: Beware of What You Wish For** <https://web.mit.edu/krugman/www/euronote.html>

(Last updated: 2023 08 10)



DEGREE LEVEL LEARNING OBJECTIVES

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