

**ECONOMICS 3460 — Monetary Theory and Policy**

**Winter Quarter 2015**

**MW, 6:00-7:50 PM, Sturm Hall 287**

**Professor Tracy Mott**

**Office — Sturm Hall 245**

**Office Hours — Mondays, Tuesdays, Wednesdays, and Thursdays, 2:00-6:00 PM**

**SYLLABUS**

The aim of this course is to understand the interrelation between money and the economy by examining the workings of financial institutions, regulation, and central banks. We will begin by discussing what we mean by the term “money,” what money does, and what serves as money. We will then examine how assets which represent claims on money are created and what determines interest rates, the rates of return on these assets. We next look at the major categories of financial intermediaries which deal in the borrowing and lending and creation of these assets. Then we look more specifically at the historical evolution of the depository institutions, especially the commercial banks, to see how a system of creation of money and provision of finance developed, ending up with an examination of how the business of banking works today. This makes us are ready to discuss why and how banks have been regulated by the government, what are the issues at stake in this, and why we had a financial crisis beginning in 2007-08. We finish the course with a study of how the Federal Reserve System, the financial intermediaries, and the public determine the availability and cost of money and credit in the United States economy. This will also enable us to discuss the power of the Federal Reserve to conduct monetary policy to affect the performance of the economy.

The assigned readings that will correspond to each section of the course and my best guess of the dates on which we will be covering each section are given on the next page. The textbook for the course is Maureen Burton and Bruce Brown, *The Financial System and the Economy*, Fifth Edition, and it is supposed to be available in the University Bookstore. The other assigned readings I will either give out in class or place on e-reserves or make available in some other form. You can also expect that I will often be giving out some additional, usually shorter, readings, often from the financial press, in class.

The written assignments which will determine your grade in the course will be three papers, or essays, assigned over the course of the quarter. That is, three times during the quarter each student will write a short paper answering questions that I will ask relating to key issues that we will be covering. The suggested length of each one will be indicated on each assignment sheet, but it will probably be somewhere between two to six pages. Students will be asked to give me a first version of their essay a week after I give out the assignment, and I will make comments on this version and e-mail them to you a few days after that. You will then turn in the final version at the beginning of the class one week after the first draft was due. A tentative schedule for these assignments is given on the next page.

The Economics MA students who are taking this class will have to do some extra reading which I will assign for them and discuss with them, and they will have to incorporate that into each of their essays. For the first essay, they will need to read Chaps. 1 & 2 of Joseph Stiglitz and Bruce Greenwald, *Towards a New Paradigm in Monetary Economics*, Cambridge Univ. Press (2003). For the second essay, they will need to read Chaps. 3 & 4 of this book. This book should be available from our library or in paperback from booksellers. For the third essay, they will need to

read the following two papers written by Hamid Baghestani and Tracy Mott: “The Money Supply Under Alternative Federal Reserve Operating Procedures: An Empirical Examination,” *Southern Economic Journal* 55, October 1988, pp. 485-493, and “A Cointegration Analysis of the U.S. Money Supply Process,” *Journal of Macroeconomics* 19, Spring 1997, pp. 269-283, of which I will give them copies.

**Course and reading schedule:**

Course section:	Readings:	Dates:
Topic I — what is money? what is liquidity? what causes financial assets to be created?	Bruce Dalgaard, “Money and the Real World” Burton & Brown, Chaps. 1, 2	Jan. 5, 7
Topic II — interest rates	Burton & Brown, Chaps. 5, 6	Jan. 12, 14, 21
Topic III — financial intermediaries	Burton & Brown, Chap. 8 Burton, Reynold Nesiba, & Brown, “Insurance Companies” and “Pension Plans and Finance Companies”	Jan. 26, 28
Topic IV — evolution of U.S. depository intermediaries	E.V. Bowden, “Evolution of the U.S. Banking System” Burton, Nesiba, & Brown, “Savings Associations and Credit Unions”	Jan. 28, Feb. 2, 4
Topic V — banking business behavior	Bowden, “The Basic Business of Banking” Burton & Brown, Chap. 9, 10	Feb. 9, 11
Topic VI — the regulation, deregulation, and re-regulation of financial institutions	Burton & Brown, Chaps. 11, 12 Albert Wojnilower, “Financial Change in the United States”	Feb. 16, 18, 23, 25
Topic VII — the Federal Reserve, the money supply process, how monetary policy is conducted, and how it affects the economy	Burton & Brown, Chaps. 3, 19, 20, 21, 24, 25 Albert Burger, “The Puzzling Growth of the Monetary Aggregates in the 1980s” Randall Wray, “Review of Evidence Supporting the Endogenous Money Approach” Wojnilower, “Transmuting Profits Into Interest”	Mar. 2, 4, 9, 11

**Tentative written assignment schedule:**

essay number	date given	1 <sup>st</sup> draft due	comments sent by	final draft due
1	Jan. 21	Jan. 28	morning of Feb. 2	Feb. 4
2	Feb. 11	Feb. 18	morning of Feb. 23	Feb. 25
3	Mar. 4	Mar. 11	morning of Mar. 13	Mar. 16