

Advanced Money and Banking Economics 161D

Winter 1999

Michelle R. Garfinkel
Office: SSPB 3257

Office hours: Mon. 1-3 pm
Telephone: 824-3190

Course description. As a continuation of 161A (Money and Banking), this course examines the link between money and economic activity in more detail. We will study various (traditional and more recent) views concerning the channel through which monetary policy can influence economic activity and take a look at the empirical evidence to date. In addition, we will study the role of institutions in explaining the behavior of central banks and, thus, economic activity.

Prerequisites. Econ 10A–C, Econ 20A–C and Econ 161A or Econ 100C.

Grading policy. There will be two exams: a midterm, tentatively scheduled for Thursday February 4 during class, and a final which is scheduled Tuesday March 16 10:30–12:30. Each is worth 50 percent of your final grade.

Textbook and readings. Frederic S. Mishkin's *The Economics of Money, Banking and Financial Markets* (Addison Wesley, 5th Edition, 1997) will be used as our primary text. Additional required readings are listed on the following page. Copies are available (in a reading packet) at the UCI Bookstore.

Course outline.	Readings
1. Introduction: The Money Market	(Review M 4,17)
1.1 The evolution and supply of money	M 3
1.2 The demand for money	M 21
2. Money and Economic Activity	(Review M 9)
2.1 Traditional views and evidence	M 24,25 (pp. 629-42)
2.2 Rational expectations revolution	M 27,28
2.3 Recent developments and new evidence	M 25 (pp.643-58); AP 1
3. The Political Economy of Central Banking	(Review M 15)
3.1 Rules vs. discretion	AP 2
3.2 Electoral cycles and central bank independence	AP 3,4,5
3.3 International policy coordination	M 8,22; AP 6,7

Note: 'M' refers to the Mishkin textbook and 'AP' refers to the additional readings listed on the next page.

Additional required readings:

1. Ben Bernanke and Mark Gertler, "Inside the Black Box: The Credit Channel of Monetary Policy Transmission," *Journal of Economic Perspectives* 9(4), Fall 1995, pp. 27-48.
2. Alex Cukierman, "Central Bank Behavior and Credibility: Some Recent Developments," Federal Reserve Bank of St. Louis *Review* 68(5), May 1986, pp. 5-17.
3. Alberto Alesina, "Politics and Business Cycles in Industrial Economies," *Economic Policy*, April 1989, pp. 57-98.
4. Patricia S. Pollard, "Central Bank Independence and Economic Performance," Federal Reserve Bank of St. Louis *Review* 75(4), July/August 1993, pp. 21-36.
5. Christopher J. Waller, "Performance Contracts for Central Bankers," Federal Reserve Bank of St. Louis *Review* 77(5), September/October 1995, pp. 3-14.
6. Martin Feldstein, "The Political Economy of European Economic and Monetary Union: Political Sources of an Economic Liability," *Journal of Economic Perspectives* 11(4), Fall 1997, pp. 23-42.
7. "An Awfully Big Adventure: A Survey of the EMU" *The Economist* April 11, 1998, pp. 3-22.