

THE UNIVERSITY OF HONG KONG
FACULTY OF BUSINESS AND ECONOMICS

School of Economics and Finance
ECON 0207 Monetary Economics (3 year curriculum)
ECON 3222 Monetary Economics (4 year curriculum)
Semester 1, 2016 - 17

GENERAL INFORMATION

I. Lectures

| Subclass | Time | Venue |
|-----------------|------------------------------|--------------|
| A | Monday 11:30 am – 12:20 pm | MW 103 |
| | Thursday 10:30 am – 12:20 pm | |
| B | Tuesday 10:30 am – 12:20 pm | KK 201 |
| | Friday 11:30 am – 12:20 pm | |

II. Instructor

| | Instructor | Teaching Assistant |
|---------------------|--|---------------------------|
| Name | Dr. Claudian Kwok | Karen Mai |
| Office | KK 1116 | KK 1026 |
| Phone | 3917-1034 | 2857-8308 |
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| Office Hours | 3:15–4:45 pm, Monday and Thursday; appointments outside office hours are welcome | TBA |

II. Pre-requisites

This course is designed for **senior students with a major in Economics and have a strong interest in monetary policies**. The pre-requisite of the course is ECON 2102/2220 Intermediate Macroeconomics. In addition, basic knowledge in Finance is expected. P.9 of this syllabus lists the background knowledge in Macroeconomics and Finance that students are expected to have before taking this course. Furthermore, **Mathematics (e.g., Calculus) and Statistics** will be used in the course when appropriate.

III. Course Moodle: _ECON0207_3222_AB_2016

IV. Textbook

Required Textbook

“*The Economics of Money, Banking and Financial markets*” by Frederic Mishkin, Pearson, Tenth Edition (2013).

The textbook provides the basic materials of the course. The rigor of the course will go beyond that of the textbook. Additional references from journal articles will be used.

Useful Reference

“*Macroeconomics*” by Abel, Bernanke and Croushore (*ABC*), Pearson, Eighth Edition will also be a useful reference.

COURSE DESCRIPTION

The subprime crisis in 2007 and the subsequent policy response of the Federal Reserve Bank provide excellent examples for students to learn about monetary policies. This course will use the subprime crisis as the background and carefully study the conventional and non-conventional monetary policies adopted by the Federal Reserve Bank since then. Both theoretical models and empirical data will be used to investigate the effects of monetary policies. In terms of the theory, we will adopt coherent macroeconomic models to study the rationales behind monetary policies, their transmission mechanisms, effectiveness and limitations. In the process, we will also explore some of the weaknesses of the typical undergraduate macroeconomic models in studying the role of monetary policies. In terms of the empirical data, we will identify the macroeconomic and financial data that can help us evaluate the effects of the monetary policies.

COURSE OBJECTIVES

To help students:

1. develop coherent frameworks to study monetary policies: their goals and tools, transmission mechanisms, effectiveness and limitation,
2. realize the weaknesses of the current macroeconomic models (that are typically taught at the undergraduate level) in studying the role of monetary policies,
3. identify the macroeconomic and financial data that can be used to evaluate the effects of monetary policies.

COURSE LEARNING OUTCOMES

Course Learning Outcomes

Aligned Faculty Goals

Upon completion of the course, students should be able to:

CLO1 evaluate the role of monetary policies in coherent macroeconomic models: their goals and tools, transmission mechanisms, effectiveness and limitations

1, 2, 4

CLO2 identify the limitations of the current macroeconomic models (that are typically taught at the undergraduate level) in analyzing the role of monetary policies

1, 2, 4

CLO3 know how various macroeconomic and financial indicators can be used to analyze the effects of monetary policies

1, 2, 4

| COURSE TEACHING AND LEARNING ACTIVITIES | | |
|---|------------------------------|---|
| Course Teaching and Learning Activities | Expected contact hour | Study Load (% of study) |
| T&L1. Lectures* | 36 | 30% |
| T&L2. Empirical Project | 24 | 20% |
| T&L3. Self-Study | 60 | 50% |
| Total | 120 | 100% |
| <p><i>*There will be no regular tutorial for the course. However, some occasional special tutorials will be arranged during the semester. In particular, there will be a set of tutorials in the late afternoons of September 20, 21 and 22, 2016 (Tuesday, Wednesday and Thursday) teaching students how to use FRED.</i></p> <p><i>Due to the public holidays, there will be no lecture on September 16 (Friday) for subclass B and October 10 (Monday) for subclass A.</i></p> | | |
| Assessment Methods | Weight | Aligned Course Learning Outcomes |
| A1. Empirical Project | 17% | 3 |
| A2. In-class exercises | 3% | 1, 2, 3 |
| A3. Term Test (October 31, 2016 (Monday), 7:00 pm – 8:30 pm, MWT2) | 30% | 1, 2, 3 |
| A4. Final Exam (time and date will be arranged by the University) | 50% | 1, 2, 3 |
| Total | 100% | |

COURSE POLICIES

- Empirical Project

- ✓ Guidelines (and various due dates) of the project will be presented in a separate handout.
- ✓ Projects submitted after the due date will not be accepted. Students who do not submit their projects on time will get “zero” mark.
- ✓ Groups that plagiarize or copy from other groups will get “zero” mark for the project. Please refer to the University’s regulation on plagiarism in <http://www.hku.hk/plagiarism/>.

- In-class Exercises

There will be around 5 in-class exercises during the semester. The exercise will occur randomly during the lectures without prior notice. Each exercise will be graded on the basis of completeness and worth 1%. Hence, for the purpose of course assessment (3%), only three will be counted. NO late exercise will be accepted.

- Term Test and Final Exam

- ✓ The term test and the final exam are closed book and closed notes.
- ✓ You will need to bring a Calculator to the term test and the final exam.
- ✓ The final exam is cumulative.
- ✓ There will be NO make-up for the term test.
If you do not attend the test, you will automatically get zero mark for the test.

However, if there is a legitimate medical reason that you miss the test, you will need to inform the teacher or the teaching assistant and provide medical certificate within 72 hours of the test. In such case, the weight of the term test will be allocated to the final exam. Nonetheless, you should note that the final exam will be more difficult than the term test. Therefore, even if you were allowed to transfer the weight of the term test to the final exam, you would put yourself into a disadvantaged position. From past experience, students who missed the term tests tend to perform poorly in the course.

- ✓ If you cheat in any of the term test or the final exam, you will get zero mark for the test or the final exam.
- ✓ For the University regulations regarding the final exams, please refer to the Examinations Unit of HKU.

- Class Attendance and Participation

Class Attendance and Participation are not counted directly into the assessment of the course.

However, class attendance is important because my lectures do not simply follow the textbook, and the term test and final exam are primarily based on my lectures.

Handouts will be available before the lectures (uploaded in course moodle) and they contain at least 75% of my lecture materials. However, the handouts are prepared in such a way to facilitate student learning in class, they are not meant to be substitutes of class lectures. Power-points of the lectures will NOT be distributed to the students because 75% of the power-point slides are nothing but highlights of the handout materials. There are about 25% of the materials that I expect students to attend the lectures and take notes on their own. Thus, class attendance is important for students to understand the course materials. Students who miss any lecture have to assume the responsibility to borrow the class notes from the classmates.

Furthermore, class attendance and participation can affect the final grade for borderline cases.

In the past, students who do not attend lectures on a regular basis tend to perform poorly in the course and in fact quite a number of them fail the course. Therefore, students who do not intend to attend the lectures on a regular basis should consider other courses.

- “ePicker”

If you have not already done so, please download the mobile application “ePicker” to your i-phone, i-pad or Android devices from the following web-site <http://dev.sef.hku.hk/> .
The application can facilitate the polling exercises that may occur in class.

STANDARDS FOR ASSESSMENT

Course Grade Descriptors

| | |
|-----------|--|
| A+, A, A- | Strong evidence of superb ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesize |
| B+, B, B- | Strong evidence of the ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesize |
| C+, C, C- | Evidence of adequate ability to fulfill the intended learning outcomes of the course at low levels of learning such as describe and apply but not at high levels of learning such as to evaluate and synthesis |
| D+, D | Evidence of basic familiarity with the subject |
| F | Little evidence of basic familiarity with the subject |

Assessment Rubrics for Each Assessment

| Performance Level | Assessment Rubrics for Term Test and Final Exam |
|--------------------------|--|
| Outstanding A+, A, A- | Answers to all or almost all of the questions: (a) provide correct analysis of all the issues raised by the question, and (b) are presented in a clear and logical manner. |
| Proficient B+, B, B- | Answers to most of the questions: (a) provide correct analysis of the main issues raised by the question, and (b) are presented clearly. And for the rest of the questions, most of the answers provide some reasonable analyses of the main issues raised by the questions. |
| Competent C+, C, C- | Answers to the majority of the questions provide correct analysis of the main issues raised by the question. And for the rest of the questions, some of the answers provide reasonable analyses of some of the issues raised by the questions. |
| Adequate D | Answers to the majority of the questions provide reasonable analysis of the main issues raised by the questions. |
| Failure F | Few of the answers provide reasonable analysis of the main issue raised by the questions |

| Performance Level | Assessment Rubrics for the Project | |
|--------------------------|---|---|
| | Data Analysis (80%) | Presentation (20%) |
| Outstanding A+, A, A- | Correctly select the most relevant data for the issue addressed in the project and explain clearly why the data collected are relevant; draw the observations from the data collected logically | The project is structured in a logical and coherent manner, all the explanations are precise and concise and there is basically no error in grammar and vocabulary. |
| Proficient B+, B, B- | Correctly select the data that are highly relevant for the issue addressed in the project and explain why the data collected are relevant; draw the observations from the data collected in a sensible fashion | The project is structured in a coherent manner, all the explanations are clear and there are few errors in grammar and vocabulary. |
| Competent C+, C, C- | Correctly select some relevant data for the issue addressed in the project and provide some reasonable explanation of why the data collected are relevant; draw some reasonable observations from the data collected | The project is structured in a reasonable way, most of the explanations are clear and there are not too many errors in grammar and vocabulary. |
| Adequate D | Correctly select some relevant data for the issue addressed in the project with some explanation of why the data collected are relevant; draw some observations from the data collected | The project is structured, the majority of the explanations are understandable, and there are not too many errors in grammar and vocabulary. |
| Failure F | Fail to select a few relevant data for the issue addressed in the project and to provide some explanation of why the data collected are relevant; and fail to draw some reasonable observations from the data collected | The project is not structured, or the explanations are generally difficult to understand, or there are too many errors in grammar and vocabulary. |

COURSE CONTENT AND TENTATIVE TEACHING SCHEDULE

TOPICS

TEXTBOOK*

I. Subprime Crisis and the Great Recession

- A. Facts and data
- B. The theory: a “standard” Aggregate Supply – Aggregate Demand analysis Ch. 21,22, 23

II. Policy Response: Conventional Monetary Policies

- A. Facts and data
- B. The theory: Conventional Monetary Policy in a “standard” Aggregate Supply and Aggregate Demand model Ch. 24
- C. The role of Expectation and “Rational Expectation” in a “standard” Aggregate Supply and Aggregate Demand model Ch. 25
- D. Monetary Policies: : Discretion vs Rules Ch. 17, 25

III. Policy Response: Non-Conventional Monetary Policies

- A. Facts and Data
- B The theory: liquidity trap when the Federal Fund rate is zero
- C. The Yield Curve and Monetary Policies: Ch. 6
Forward Guidance and Quantitative easing (Large Scale Asset Purchase Program)

IV. Transmission Mechanism – in the presence of Capital Market Imperfections

- A. Frictions in the Capital Market Ch.8
- B. Implications of capital market imperfections on the Transmission Mechanism Ch. 26

V. Asset Prices, Credit Booms, Financial Crisis and Monetary Policy (if time allows) Ch. 9

**The basic reference from the textbook is listed above.*

(a) We will not necessarily cover each chapter in its entirety. The specific sections of the chapters that we are going to cover in class will be listed in the Handouts.

(b) Additional journal articles will be used throughout the course and they will be listed in the Handouts.

(c) The rigor of the course will go beyond that of the textbook.

BACKGROUND KNOWLEDGE

The concepts and theories listed below will be used in class but they will NOT be taught in class: students are expected to have learned them BEFORE taking this course.

| <i>TOPICS</i> | <i>TEXTBOOK</i> |
|--|------------------------|
| A. What is “Money”? Classification of Monetary Aggregates | <i>Ch. 3</i> |
| B. Money Creation Process <ul style="list-style-type: none">• Fractional Reserve System• Money Creation Process and the role of Commercial Bank in the Process• Monetary Base and Money Multiplier | <i>Ch. 15</i> |
| C. Monetary Policy Tools <ul style="list-style-type: none">• Open Market Operations• Discount Window• Reserve Requirement• Interest on Reserves | <i>Ch. 16</i> |
| D. Concepts of PV, NPV, the Yield to Maturity and Nominal vs Real Interest Rates | <i>Ch. 4</i> |
| E. Term Structure of Interest Rate <ul style="list-style-type: none">• The Yield Curve• Determination of the Term Structure of Interest Rate: Expectation Theory and Liquidity Premium Theory | <i>Ch. 6</i> |