III Makedonska brigada b.b., Skopje, 1000, Republic of Macedonia
Phone/Fax: +389 2 2463156, +389 2 2463159, info@uacs.edu.mk, www.uacs.edu.mk

Course Name:	**Monetary Policy and Analysis**
Semester:	**Spring, 2011/2012**
Major:	**MSc in Economics**
Instructor:	**Igor Velickovski**
Credits:	**4 credit hours/ 8 ECTS**
Contact hours:	**24 hours**
Learning hours:	**96 hours**
Class Hours:	**Thu, Fri 18-21, Sat 9-13**
Prerequisite:	**Macroeconomics and Statistics (undergraduate)**

Required Text:

1. Akerlof, A. G., Dickens, T. W. & Perry, L. G. (2000). Near-Rational Wage and Price Setting and the Long-Run Phillips Curve. Brookings Papers on Economic Activity 2000:1.
2. Bain, K. & Howells, P. (2009). Monetary Economics: Policy and its Theoretical Basis. Second Edition. Palgrave Macmillan.
3. Bank of England (1999). The Transmission Mechanism of Monetary Policy. Monetary Policy Committee.
4. Gray, S. & Talbot, N. (2006). Monetary Operations. Bank of England. Handbooks in Central Banking No. 24.
5. Feldstein, M. (2011). The Euro and European Economic Conditions. National Bureau of Economic Research Working Paper No. 17617.
6. Mishkin, F. (2010). Over the Cliff: From the Subprime to the Global Financial Crisis. National Bureau of Economic Research. Working Paper No. 16609.
7. Mishkin, F. (2007). Monetary Policy Strategy. MIT Press.
8. Velickovski, I. & Pugh, G. (2011). Constraints on Exchange Rate Flexibility in Transition Economies: a Meta-Regression Analysis of Exchange Rate Pass-Through, Applied Economics 43 (27) p. 4111-4125.
9. Velickovski, I. (2012). Assessing Independent Monetary Policy in Small, Open and Euroized Countries: Evidence from Western Balkan. Paper submitted to Empirical Economics.

Additional reading:

1. Gorton, B. G. (2010). Questions and Answers about the Financial Crisis. National Bureau of Economic Research. Working Paper No. 15787.
2. Handa, J. (2008). Monetary Economics. Second Edition. Routledge.
3. Velickovski, I. (2010). Potential Costs of Euro Adoption for Transition Countries: a Case Study for Macedonia. VDM Verlag Dr. Müller.
4. Walsh, E. C. (2010). Monetary Theory and Policy. Third Edition. MIT Press.
5. Would it be reasonable to organise an "orderly haircut" now on the public debts of troubled euro-zone countries? Natixis Economic Research No.76, 2011.
6. Documents and exercises to be provided by the instructor.

Course description:

The course is designed as a survey of the basic theories and empirical evidence in monetary economics for master level students. The goal of this course is to equip the students with the knowledge and tools necessary to understand the core aspects of monetary economy: how monetary policy is determined and how interacts with the rest of the economy. For that purpose, the course develops a number of theoretical frameworks for the analysis of the role of money in the economy, focusing in particular on: money demand and money supply, monetary policy transmission mechanism, neutrality of money, strategy of monetary policy, monetary policy targets and instruments, and implementation of monetary policy during crisis.

Learning objectives:

1. To study basic models of money demand and money supply
2. To analyse the channels of monetary policy transmission mechanism
3. To study the monetary policy effects on output, employment and inflation from the perspective of competing economic schools
4. To study different strategies of monetary policy for achieving its main goals
5. To study implementation of monetary policy

Learning outcomes:

By the end of this course it is expected that the student will be able to:

1. be familiar with the frameworks for analyzing the money demand and money supply process (base money, money multiplier, monetary aggregates);
2. specify and apply models and methods to analyse the interest rate channel, exchange rate channel, credit channel, asset prices channel;
3. be informed about monetary policy strategies, the importance of central bank independence for achieving its goals, transparency and accountability;
4. understand the potential of monetary policy to affect output and inflation;
5. understand how monetary policy instruments (open market operations, reserve requirements, standing facilities) are used in the central bank practice.

Course delivery:

The instructor will deliver lectures to the students in six parts (days). Each part consists of two classes devoted to instructor's presentations and one class for discussion on related topic. The lectures will be delivered to the students in a form of ppt which could be used as guidance for further reading and preparation of exam. The classes will be used to illustrate the theory with references to policy issues, empirical studies and quantitative tasks. Moreover, the instructor will provide case studies and/or practical examples drawn from the real world as illustrations designed to enhance understanding of the monetary economy. The instructor will also encourage the interaction and participation of students in class discussions.

Instructor's expectations from students:

Attendance on a regular basis is highly recommended as it affects positively the exam performance. The students are encouraged to ask questions and participate in class discussions which will improve their understanding of monetary economy. It is also expected that students read the suggested materials (mostly, articles) for the class and investigate the theme in greater detail. Benefits from the class discussions are higher if students have read the articles and have thought about interesting questions to ask. Articles might be controversial and contradictory to each other. They are not given to you to convince you of any point of view, but to spark a conversation and discuss them critically.

Examinations structure:

1. *Exam* – 50%

Exam is closed-books and covers all the material discussed throughout the course. The exam will be part multiple choice and part in a form of essay questions. Students may use own calculator, but mobile phones are strictly not tolerated for any use (including computations). You will have 2 hours to complete the exam.

2. *Assignments* – 40%

There will be two assignments, one essay-type assignment (25%) and one quantitative assignment (15%), which will be graded. Student will be asked to offer a solution to the assignments, which will be delivered during the classes. There may be additional exercises which are not graded, but which you will be asked to do in order to help you prepare better for the exam.

3. *Class participation* – 10%

The interest that a student shows in the class discussions will be evaluated. Your participation grade will be based on the quality of your contributions to class sessions. Absence from class discussions will deteriorate a student's final grade.

Day 1:	**Introduction to the class** • Meeting with the lecturer • Syllabus and basic textbook **Definitions, supply and demand for money** • Theoretical and empirical definitions of money • Supply of money • Demand for money **Studying material:** **Bain, K. & Howells, P.: Chapters 2 & 3** **Handa, J.: p.5-14**
Day2:	**Transmission mechanism of monetary policy** • Interest rate channel • Exchange rate channel • Credit channel • Asset prices channel • Expectations channel **Application**: Different econometric techniques will be applied by students supported by the instructor during the class to investigate the influence of policy rate on money market interest rates and banks' borrowing and lending interest rates, as well as on prices and output in Macedonia and other transition countries. **Studying material:** **Articles: Bank of England (1999); Velickovski, I. (2012)** **Bain, K. & Howells, P.: Annex 1 (p.411-415)**
Day 3:	**Monetary policy, prices and output** • Classical Macroeconomics • Keynesian Macroeconomics • New Classical Macroeconomics • New Keynesian Macroeconomics • New Consensus Macroeconomics **Case Study**: Inflation and money supply in Zimbabwe **Studying material:** **Bain, K. & Howells, P.: Chapters 6** **Article: Akerlof, A. G., Dickens, T. W. & Perry, L. G. (2000)**
Day 4:	**Formulation of monetary policy** • Rules versus discretion: time inconsistency, inflation bias • Central bank independence: accountability, transparency • Monetary policy strategy: exchange rate targeting, monetary targeting and inflation targeting. **Studying material:** **Bain, K. & Howells, P.: Chapters 8** **Mishkin, F.: Chapter 10** **Article: Velickovski, I. & Pugh, T. G. (2011)**
Day 5:	**Implementation of monetary policy** • Monetary policy instruments: open market operation, reserve requirement, standing facilities • Liquidity forecasting: autonomous factors of liquidity **Application**: Each student will be "appointed" as a manager of Treasury department in a different bank where he/she will be in charge of liquidity management during a specified reserve requirement

	period. He/she will be responsible for liquidity forecasting, trading with other students (banks) on the interbank money market and taking part in the central bank interventions. **Studying material:** **Article: Gray, S. & Talbot, N. (2006)**
Day 6:	**Monetary policy in the face of the financial, economic and debt crisis** • Monetary policy in the USA, Euro Area and Macedonia • Financial crisis: from subprime mortgage crisis to global financial crisis, links from financial crisis to recession • Debt crisis in the Euro area • Policy responses and recovery period **Studying material:** **Articles: Mishkin, F. (2010); Feldstein, M. (2011);** **Bain, K. & Howells, P.: Chapters 11 (p.358-364) & Chapter 12 (p.388-393)**
	Hand-outs for the project **Final exam**

CPC Coverage in terms of hours

1) Functional area
   A Marketing – 0 hour
   B Business finance – 0 hours
   C Accounting – 0 hours
   D Management – 0 hours
2) The Business environment
   A) Legal environment of Business – 1 hours
   B) Economics – 10 hours
   C) Business ethics – 1 hour
   D) Global dimensions of Business – 8 hours
3) Technical skills
   A) MIS/IT computing – 2 hour
   B) Statistics/Quantitative techniques – 2 hours
4) Integrative areas
   A) Business policy – 0 hours
   B) Internship – 0 hours

<u>**Assessment**</u>:
Active participation and attendance-10%, Assignments-40% and Final Exam-50%.
Exams are closed books. Also, you use your own calculator and nothing else will be allowed.
Mobile phones are strictly not tolerated in the class for any use (including computations). Active participation is meant as the effort and the interest that a student shows in the class, including homework.

After each session students are expected to study all the relevant material, read all the associated exercises, prepare assignment for the next class (if given), identify the difficult points and pose their questions in the next session either directly to me or in the class.

<u>Grading Criteria</u>

Grading points	%	Quality
A	96-100	4.00
A-	90-95	3.67
B+	87-89	3.33
B	83-86	3.00
B-	80-82	2.67
C+	77-79	2.33
C	73-76	2.00
C-	70-72	1.67
D+	67-69	1.33
D	63-66	1.00
D-	60-62	0.67

Make-up tests are given in exceptional circumstances. Cheating and plagiarism in any form will result immediately in the grade F. I assign a grade of (incomplete) only when a student misses the Midterm or the Final exam due to a **College-excused absence**, and is unable to make up before final grades are due to the Record's Office. Please, consider seriously that there will be no exceptions concerning the above policy.

Class Conduct: You are responsible for everything that is announced, presented or discussed in class. The way to avoid any misunderstanding associated with this course is to attend class. You are expected to attend class and I do keep attendance records. **The class starts promptly at the scheduled time**. I find late arrivals distracting, which cause a decline in the quality of my lecture.

Importantly, it is also disruptive to your colleagues. I accept students **only up to five minutes late for the first class in a day**. Please, refrain from talking during class, it is disruptive to your colleagues and the lecture. I expect the best behavior from all of you. This is what education is all about. If you have a question about the material, please don't hesitate to ask me; answering questions is part of my job. If you are lost or confused, your question may help clarify the topic. Please, consider that **the language of instruction is English, so all our conversation into the class must be in this language**.

Keep in mind the following:
C- or better is required to use a course either as a prerequisite or as a major requirement.
G.P.A. (Grade Point Average): is computed for each student using the quality points earned for each course taken. A G.P.A of at least 2.0 is required for transfer and to graduate from ACS.
I wish you an interesting and creative academic semester.

Academic Honesty
The American College Skopje has its personal integrity which is presumed to be sufficient assurance in academic matters one's work is performed honestly and without unauthorized assistance. Undergraduate students, by registration, acknowledge the jurisdiction of the Honour System.
Plagiarism and cheating are serious offences and may be punished by failure on the exam, paper or project; failure in the course; and/or expulsion from the faculty. Individuals are prohibited from selling or being paid for taking notes in any form (written, electronic, or otherwise) during this course to or by any person or commercial firm without the express written permission of the professor teaching this course.

Late Work:
Many reasons are given for late work (e.g., flat tires, printer problems, illness, oversleeping, etc.). No matter what the reason, the bottom line is that either (a) the work was completed and turned in when required or (b) the assignment was not completed and turned in when required.
As specified earlier, assignments are due in class at the beginning of class on the specified due date. There is NO PROVISION for late work on any assignment (i.e., late work is not accepted). I also strongly recommend having backup systems in place so that you can have all work completed on schedule. Having your work completed on schedule is a key to early success in your business career.
NOTE: Late submissions are not accepted. Partial credit will NOT be given for late work.

Approved by: Marjan Petreski
Date: 12/2011