



## SYLLABUS

**ECO 463-01: Monetary Economics**  
**CID 8186, Summer II - 2008**  
**M-T-W-Th-F: 8:00 – 9:50 a.m.**  
**135 Smith-Hutson Building**

**Instructor:** Isabel Ruiz  
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### Textbook:

**Required:** *Money, the Financial System, and the Economy* by R. Glenn Hubbard, Sixth Edition, Pearson Addison Wesley

- The Federal Reserve Today, Fifteenth Edition, Federal Reserve Bank of Richmond. ([http://www.richmondfed.org/publications/educator\\_resources/federal\\_reserve\\_today/index.cfm](http://www.richmondfed.org/publications/educator_resources/federal_reserve_today/index.cfm))
- The Federal Reserve System: Purposes and Functions, Ninth Edition, Board of Governors of the Federal Reserve System. (<http://www.federalreserve.gov/pf/pf.htm>)
- The Wall Street Journal
- Business Week
- Additional readings/handouts will be distributed as the semester progresses.

### Course Description:

What is money? Who controls the supply of money and how? What role does the Federal Reserve System play in the money supply process? How do actions of banks, depositors, and borrowers affect money supply? How does money affect the price level and the interest rate? How does it influence the overall economy in the short-run *as well as* in the long-run? What is the role of the international financial system in the money supply process in the U.S.? These are some of the basic questions addressed in the field of monetary economics, and this course is designed to discuss these issues within a simple unifying analytical framework. The focus of this course will be on the Federal Reserve System's monetary policy and money supply, and the theories purported to explain the relationship between money and rest of the economy.

### Prerequisites:

ECO 230 or ECO234. ECO362 is desirable.

### **Course Objectives:**

(i) Gaining factual knowledge; (ii) Learning fundamental principles, generalizations, and theories; and (iii) Learning to apply course materials to improve thinking, problem solving, and decisions.

### **Course Expectations:**

Consistent attendance is essential for acceptable performance in this course. Many students find economic concepts difficult to grasp. Missing class will only make the process of absorbing the material more difficult. **I will present material in class that will not be found in the text. I will also give extra-credit for some in-class activities.** Much of this course is cumulative, with each period's lesson depending on comprehension of what came before. I therefore urge that you keep up to date on a period-by-period basis.

### **Evaluation:**

The final grade will be determined on the basis of students' performance on the following:

- ✓ A mid-term exam: 25% of your final grade.
- ✓ Summary of a Chapter: 20%
- ✓ Presentation of a Chapter: 20%
- ✓ Presentation Questions and Discussion (Participation): 10%
- ✓ A Final exam: 25% of your final grade

### **Assignment for Graduate Credit**

If a student takes this class for graduate credit, he/she will have to complete an additional assignment (instead of the Chapter Summary and Presentation). The assignment will require the student to conduct research under the supervision of the instructor, and to write a paper on an assigned topic related to the materials covered in the class. The student will receive the assignment in the second/third week of the semester and it will be due in the last week of class. This assignment will count 10% of the graduate student's total grade.

<b><u>The grading scale is:</u></b>
90 – 100 A; 80 – 89 B; 70 – 79 C; 60 – 69 D; Below 60 F

Notes On Exams and Make-Up Policy:

1. The final examination will be on Thursday, Aug. 7, 2008
2. You must take all exams. No Make-Up tests (at all). Final exam is mandatory.
3. Special Needs Students: Please talk to me if you need any special arrangements. Students who are members of the university athletic teams should submit their respective games schedules properly signed by the officials in the athletics department at the beginning of the semester.
4. Everything presented in class and in the assigned reading is considered "fair game" on examinations.

**On-Time Attendance Policy:**

Attendance will be checked at each time class meeting. Only three hours of absences during the whole term are allowed, so long the absences do not occur on examination days or when assigned work is due. Students not on time when attendance is taken will be counted as a tardy if they make their presence to me known before leaving the class. Each tardy counts as a one-half (1/2) absence. If you do not make your presence known to me before leaving the class, that counts as an absence. Not coming to class excludes you from gaining extra-credit points.

**Academic Honesty:**

Students are expected to conduct their academic work with integrity and honesty. Acts of dishonesty will not be tolerated and can result in the failure of the course and dismissal from the University. Academic dishonesty includes, but is not limited to, cheating on a test, plagiarism, collusion –the unauthorized collaboration with another person in preparing work offered for credit, the abuse of resource materials, and misrepresentation of credentials or accomplishments as a member of the university. The University policy on academic honesty and appeal procedures can be found in the manual entitled Student Guidelines, distributed by the Division of Student Services. (Reference Section 5.3 of the SHSU Student Guidelines)

**Students with Disabilities:**

It is the policy of Sam Houston State University that no otherwise qualified disabled individual shall, solely by reason of his/her disability, be excluded from the participation in, be denied the benefits of, or be subjected to discrimination under any academic, Student Life program, or activity. Disabled students may request academic assistance/accommodation when needed from a Committee for Continuing Academic Assistance for Disabled Students by visiting the Director of the Counseling Center in the Lee Drain Building Annex, or by calling ext. 1720. Note that no accommodation can be made until a student registers with the Counseling Center.

**Religious Holy Day Policy:**

Section 51.911 (b) of the Texas Education Code requires that an institution of higher education excuses a student from attending classes or other required activities, including examinations, for the observance of a religious holy day, including travel for that purpose. A student whose absence is excused under this subsection may not be penalized for that absence and shall be allowed to take an examination or complete an assignment scheduled for that day within a reasonable time after the absence. The student desiring to absent himself/herself in order to observe a religious holy day must notify the instructor of his/her intent no later than *July 12*.

## **Outline of Topics:**

### **Part I: Money and the Financial System**

1. Introduction(Chapter 1)
2. Overview of the Financial System (Chapter 3)
3. All about Money (Chapter 2)

### **Part II: Central Bank and the Money Supply Process**

4. Federal Reserve System (Chapter 19)
  - i) Structure and organization of the system
  - ii) Functions of the Federal Reserve System
  - iii) Independence of the Federal Reserve
5. Monetary Policy Tools and the Market for Reserves (Chapter 20)
  - i) Monetary policy tools
1. Open Market Operations
2. Discount Policy
3. Reserve Requirements
  - ii) The Federal Funds Market
6. Conduct of Monetary Policy: Goals and Targets (Chapter 21)
  - i) Goals of monetary policy
  - ii) Strategies to achieve monetary policy goals
7. The Fed's Balance Sheet and the Money Supply Process (Chapters 17 and 18)
  - i) The Fed's balance sheet
  - ii) Effects of monetary policy on the size and composition of the balance sheet
  - iii) The simple deposit multiplier
  - iv) The monetary base and the money multiplier

### **Part III: Monetary Theory**

8. The Demand for Money (Chapter 23)
  - i) Transactions and portfolio allocation motives
  - ii) A demand function for money

9. The Financial System and the Economy: The IS-LM-FE Model (Chapter 24)
  - i) The IS curve
  - ii) The LM curve
  - iii) Money, output and prices in the long-run
  
10. Aggregate Demand and Supply Analysis (Chapters 25, 26 and 27)
  - i) Aggregate demand, aggregate supply and equilibrium
  - ii) The monetary transmission mechanism: money and output in the short-run
  
11. Money, Prices and Inflation (Chapter 28)
  - i) Explaining price level changes
  - ii) Costs of inflation
  - iii) Inflation and monetary policy

#### **Part IV. Foreign Exchange Market and Monetary Policy**

12. The Foreign Exchange Market (Chapters 8 and 22)
  - i) Exchange rates in short-run
  - ii) Exchange rates in long-run
  - iii) Changes in exchange rates
  - iv) Intervention in the foreign exchange market