



SYLLABUS

**ECO 463-01: Monetary Economics
Fall 2007
MOWE: 9:30 a.m. – 10:50 a.m.
140 Smith-Hutson Building**

Instructor: Dr. Hiranya K. Nath
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Office Hours: Tuesday and Wednesday: 2:00 – 5:00 p.m. *or* by appointment

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 in a simple manner within a unifying analytical framework. The focus of this course will be on the Federal Reserve System's monetary policy and money supply, and on the theories purported to explain the relationship between money and rest of the economy.

Prerequisites: ECO 230 or ECO234. ECO362 is desirable.

Learning Objectives: The student will have learned to (i) gain factual knowledge; (ii) to understand fundamental principles, generalizations, and theories; and (iii) to apply course materials to improve thinking, problem solving, and decisions.

Class Webpage: http://www.shsu.edu/~eco_hkn/classes/eco46301_fall07.htm

Required Textbook:

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

Additional Readings: The following readings will help you with the materials covered in the class. For students who take this class for graduate credit, these readings are highly recommended.

- “Identifying Monetary Policy: A Primer” by Tao Zha *in* **Economic Review**, Second Quarter 1997, Federal Reserve Bank of Atlanta.

- “Globalization and Monetary Policy” by Mark Wynne in **Southwest Economy**, Issue 4 July/August 2005, Federal Reserve Bank of Dallas.
- **The Federal Reserve Today**, Fifteenth Edition, Federal Reserve Bank of Richmond.
(http://www.richmondfed.org/publications/educator_resources/federal_reserve_to_day/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.

Evaluation: Each student will be evaluated on the basis of his or her performance in the following:

Exams

There will be four midterm exams and a comprehensive final exam. The final exam is mandatory. However, you may choose not to take *or* to miss one midterm. If you take all five exams, I will count the best four towards your course grade. Each of the best four exams will count 20% of your final grade. Each exam will consist of 20 multiple choice questions and 2 to 3 short-answer-type questions, and the maximum grade points will be 20.

Homework Assignments

You will have six homework assignments of which you may drop one. These homework assignments will count a total of 20% of your grade. For graduate students, the homework assignments will count a total of 10% of their grades.

Pop Quizzes

Occasionally there will be pop quizzes which will add extra points to your total grade points. Each quiz will consist of 10 multiple choice questions and will be graded on a scale of 0-1 points.

Assignment for Graduate Credit

If a student takes this class for graduate credit, he/she will have to complete an additional assignment. 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 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.

Under no circumstances will an individual extra credit assignment be given.

Course grades will be assigned according to the following scale:

Total scores including bonus points	Letter Grade
90 – 100	A
80 – 89	B
70 – 79	C
60 – 69	D
Below 60	F

* If a student takes this class for graduate credit he/she must receive a minimum of 'C' grade to pass.

Exam Dates:

Midterm I	: Wednesday, September 12
Midterm II	: Monday, October 8
Midterm III	: Monday, November 5
Midterm IV	: Wednesday, December 5
Final Exam	: Wednesday, December 12

Attendance, Class Decorum, Exam, Student Disability, and Religious Holy Day Policy:

1. Attendance is very important to succeed in this class. Because of the federal and SHSU guidelines, the instructors are required to submit reports on student attendance. I will track your attendance using a seating plan sheet. On the first day of class, I will pass on a seating plan sheet for you to identify your seat by writing your name on the seat location. You are expected not to change your seat during the semester. At the beginning of each class I will mark **P** for 'present' or **A** for 'absent' on the seat assigned to you on the seating plan sheet. If you do not miss any class during the semester, you will earn 2 bonus points; and for only 1 miss you will earn 1 bonus point. These points will be added to the total grade points you accumulate for your performance in exams and other assignments throughout the semester, before deciding the letter grade. Excessive absences may result in "actions" from the Registrar's office.
2. Students are expected to be on time for class. If you are late, you will be marked 'absent'. Once teaching starts, you are expected to sit through the entire time in the class. If you must leave in the middle of class, please take your 'stuff' and do not re-enter.
3. Eating and drinking in the classroom are strongly discouraged.

4. Cell phones must be turned off. You are expected not to talk while teaching is going on. Talking not only shows disrespect for the teacher but also disturbs other students.
5. Students who are members of the university athletic teams should submit their respective game schedules properly signed by the officials in the athletics department at the beginning of the semester.
6. Students are expected to be on time for exams. No student will be allowed to begin an exam after the first person to finish that exam has left the room.
7. Academic Dishonesty: 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)
8. Disability Accommodation: 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.
9. 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.

University policy 861001 provides the procedures to be followed by the student and instructor. A student desiring to absent himself/herself from a scheduled class in order to observe (a) religious holy day(s) shall present to each instructor involved a written statement concerning the religious holy day(s). The instructor will complete a form notifying the student of a reasonable timeframe in which the missed assignments and/or examinations are to be completed. For a complete listing of the university policy, see: http://www.shsu.edu/%7Evaf_www/aps/documents/861001.pdf

10. The graduating seniors are encouraged to make serious efforts to receive the required/desired grades so that they may graduate on time and without any problem.

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
 - Open Market Operations
 - Discount Policy
 - 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

Tentative Time Schedule

Time	Topics
Before Midterm 1	1 through 4
Between Midterm 1 and 2	5 through 7
Between Midterm 2 and 3	8 through 10
Between Midterm 3 and 4 (and Final)	11 and 12

Important Dates to Remember

August 20 MONDAY	First Day of Class
August 27 MONDAY	Last day to register and to process schedule changes
September 3 MONDAY	Labor Day Holiday for students and faculty
September 5 WEDNESDAY	Deadline for notification by students to the faculty members of the student's intent to be absent on religious holy days. Last day to drop without a "Q" and receive 100% refund.
September 12 WEDNESDAY	Midterm Exam 1
October 8 MONDAY	Midterm Exam 2
October 10 WEDNESDAY	Last day to drop Fall Semester courses without grade of F.
November 5 MONDAY	Midterm Exam 3
November 21-23 WEDNESDAY THROUGH FRIDAY	Thanksgiving holidays for students and faculty
December 5 WEDNESDAY	Midterm Exam 4
December 6 THURSDAY	Last class day. Last day to resign.
December 12 WEDNESDAY	Final Exam