

**INTERAMERICAN UNIVERSITY OF PUERTO RICO
METROPOLITAN CAMPUS
BUSINESS FACULTY
GRADUATE DEPARTMENT
MBA FINANCE PROGRAM**

SYLLABUS

I. GENERAL INFORMATION

| | | |
|---------------------------|---|----------------------------|
| Course Title | : | Theory and Monetary Policy |
| Code and Number | : | BADM 6220 |
| Credits | : | 3 |
| Academic Term | : | |
| Professor | : | |
| Office Location and Hours | : | |
| Office Telephone | : | |
| E-Mail | : | |

II. DESCRIPTION

Analysis of the interrelationships between supply and demand and the influence of these on the level of income, the employment and prices. Study of the formulation and implementation of monetary policy in banking matters and national and international credit.

III. OBJECTIVES

It is expected that upon completing the course, the student will be able to:

1. Analyze the interrelations between monetary supply and demand in an economy based on money and its effects upon general economic activity.
2. Differentiate among several interventionist economic theories about monetary demand and supply currently applied in the formulation of monetary policy.
3. Evaluate the formulation and implementation of current monetary policy in the United States, and other countries.

IV. CONTENT

Below is a tentative outline of the topics to be covered:

- A. Review of foundational macroeconomic issues: Identify the economic role of money in an exchange economy.
 - 1. Money and economic development in an exchange and welfare economy. (Mankiw, Ch. 3 and Mishkin, Ch. 1-3)
 - 2. How the money market works (Mishkin Chaps. 4 & 5)
 - a) time value of money
 - b) the interest rate as a price
 - c) how bonds work

Quiz #1

- 3. Central banking structure and the emergence of the Federal Reserve System. (Mishkin: chapters 14 & on Blinder's book - Ch. 2 in pdf on Blackboard and <https://www.federalreserve.gov/monetarypolicy/monetary-policy-principles-and-practice.htm>)
 - a) The Structure of the Federal Reserve System
 - i. Dual mandate
 - ii. The Money Supply Process (Mishkin ch. 15)
 - b) Monetary Policy Principles and Practice
 - i. Fundamentals tools of Monetary Policy (Mishkin chapters 16 and 17)
 - ii. Other tools (Mishkin chapter 17 and see Estrella (2005))

Quiz #2

- B. Savings, investments and interest rate in the process of capital formation.
 - 1. Savings, individual time preferences and production structure
 - a) Quantity Theory, Inflation and the Demand for Money (Mishkin chapter 20)
 - b) Investments and the market interest rate (natural) under Keynesianism – Aggregate Demand Curve and Monetary Policy (Mishkin chapter 22)
- C. Categorize Aggregate Keynesianism: demand and supply of money
 - 1. Aggregate expenditures model
 - a) The IS curve (Mishkin chapter 21)
 - b) The LM curve: Capital structure and the market for loanable funds (Money markets) (Mishkin, Appendix Ch. 5)

- c) IS-LM model and its application (Mishkin chapter 22)
- 2. Aggregate demand and supply model (Mishkin chapter 23)
- 3. Advanced tools (Mankiw, Ch. 11 and 12)
 - a) Capital formation process in a market economy. (Mankiw, Ch. 8)
 - b) Dynamics of the Aggregate Demand Curve
 - i. Building the IS-LM Model (Mankiw chapter 11)
 - ii. Analyzing the IS-LM Model (Mankiw chapter 12)
 - iii. Dynamic IS-LM Model (Mankiw chapter 15)

Quiz #3

- D. Identify Monetarism, stagflation, monetary rule and business cycles under the IS-LM Model
 - 1. Tools of Monetary Policy (Mishkin chapter 24)
 - 2. Unemployment, wages, prices and stagflation. (Mankiw chap. 7 and 14)
 - 3. Money and inflation (Mishkin ch. 20)
 - 4. Rational expectations and its implications. (Mishkin chaps 25 and 26)

Quiz #4

- E. Central Bank and monetary policy formulation and implementation in the short run using the LM curve: The Open Economy Model
 - 1. Exchange rates – the Mundell-Fleming model (Mankiw, Ch. 13)
 - 2. Multiple deposits and money supply (Mishkin, Ch. 18)
 - 3. Determinants of money supply.

Quiz #5

- 4. How monetary policy affects the economy (the Solow Growth Model and the “steady state”) (Mankiw, Ch. 8 and 9)
 - a) Consumption
 - b) Population
- 5. Tools of modern monetary policy - Credit and Liquidity Programs and the Balance Sheet
 - a) Financial Crisis Regulatory Reform
 - i. Financial Crisis in Advanced Economies (Mishkin, ch. 12)
 - ii. Financial Crisis in Emerging Economies (Mishkin, ch. 13)
 - iii. Term Asset-Backed Securities Loan Facility (TALF)
 - iv. Troubled Asset Relief Fund (TARP)

V. LEARNING ACTIVITIES

This course is designed as a survey of the basic theories in monetary economics for master level students. The main objective of the course is to help students understand the core aspects of monetary economy: how monetary phenomena and policies are determined, and how they interact with the rest of the macro economy. Several key theoretical frameworks will be constructed, and various monetary economic phenomena, including monetary policy actions will be analyzed within such frameworks.

This course is in English. As such all quizzes, homework and class materials will be in English. As such you are expected to enthusiastically participate in all activities so you may achieve:

1. Critical thinking and written analysis.
2. Exercises and verbal problems.
3. Professor Lectures
4. Presentations
5. Group Projects
6. Presentations: Individual and Group
7. Supplementary Readings
8. Internet Searches

VI. EVALUATION

| <u>Criteria</u> | <u>points</u> | <u>% of final grade</u> |
|-----------------------------|---------------|-------------------------|
| Final exam (position paper) | 100 | 20% |
| Quizzes | 100 | 60% |
| Homework | <u>100</u> | <u>20%</u> |
| Total | 300 | 100% |

VII. SPECIAL NOTES

A. Auxiliary services or special needs

All students who require auxiliary services or special assistance must request them at the beginning of the course or as soon as they become aware that they need them, through the corresponding registry, in the Office of the Coordinator of services for students with disabilities, Dr. María de los Ángeles Cabello. She is located in the Counseling and Counseling Program, office 111, on the first floor of the John Will Harris building, extension 2306.

B. Honesty, fraud, and plagiarism

Dishonesty, fraud, plagiarism and any other inappropriate behavior in relation to academic work constitutes major infractions sanctioned by the General Student Regulations. The major infractions, as stated in the General Student Regulations, may have as a consequence, suspension from the University for a definite period greater than one year or the permanent expulsion from the University, among others sanctions.

C. Use of electronic devices

Cellular telephones and any other electronic device that could interrupt the teaching and learning processes or alter the environment leading to academic excellence will be deactivated. Any urgent situation will be dealt with, as appropriate. The handling of electronic devices that allow students to access, store or send data during evaluations or examinations is prohibited

D. Compliance with the Provisions of Title IX

The Federal Higher Education Act, as amended, prohibits discrimination because of sex in any academic, educational, extracurricular, and athletic activity or in any other program or function, sponsored or controlled by a higher education institution, whether or not it is conducted within or outside the property of the institution, if the institution receives federal funds.

In harmony with the current federal regulation, in our academic unit an Assistant Coordinator of Title IX has been designated to offer assistance and orientation in relation to any alleged incident constituting discrimination because of sex or gender, sexual harassment or sexual aggression. The Assistant Coordinator Sr. George Rivera can be reached by phone at extension 2262 o 2147, or by e-mail griverar@metro.inter.edu.

The Normative Document titled **Norms and Procedures to Deal with Alleged Violations of the Provisions of Title IX** is the document that contains the institutional rules to direct any complaint that appears to be this type of allegation. This document is available in the Web site of Inter American University of Puerto Rico (www.inter.edu).

IX. EDUCATIONAL RESOURCES**Textbook**

There is no textbook that directly maps into the course I teach. However, selected chapters from the text by Mishkin and Hubbard and O'Brien, can provide a helpful supplement to course lectures.

1. Mankiw, N.G. (2013). Macroeconomics. Worth Publishers
2. Akerlof, G., O. Blanchard, D. Romer and J. Stiglitz. (2015) What have we learned? Macroeconomic Policy after the Crisis. MIT Press.

However, selected chapters from the Blinder, Hubbard and O'Brien, Mankiw and Mishkin texts can provide a helpful supplement to course lectures.

Supplementary texts:

3. Blinder, A. S. (1999) Central Banking in Theory and Practice. MIT Press (https://books.google.com.pr/books/about/Central_Banking_in_Theory_and_Practice.html?id=UWWv9wV4yIkC&printsec=frontcover&source=kp_read_button&redir_esc=y#v=onepage&q&f=false)
4. Hubbard, R.G. and A.P. O'Brien (2012) Money, Banking, and the Financial System. Pearson.
5. Mishkin, Frederic S. (any year) The Economics of Money, Banking and Financial Markets. Pearson-Addison Wesley
6. Saunders, A. (2008). Financial Institutions Management: A Risk Management Approach. McGraw-Hill.
7. Cybercurrency: Galligan, M. and D. Golden. (2020). Cyber: New Challenges in a COVID-19–Disrupted World. <https://corpgov.law.harvard.edu/2020/11/23/cyber-new-challenges-in-a-covid-19-disrupted-world/#more-134602> (November 23, 2020).

Audiovisual and Electronic Resources (title or name and URL address should be included)

Numerous articles from the FRB publications and academic journals will also be used and posted.

- <https://www.federalreserve.gov/monetarypolicy.htm>
- <https://www.federalreserveeducation.org/about-the-fed/structure-and-functions/monetary-policy>
- <https://www.stlouisfed.org/in-plain-english/how-monetary-policy-works>
- Fed Functions: Conducting Monetary Policy: <https://www.youtube.com/watch?v=xHQJBNO0yQc>
- Monetary Policy Implementation: <https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation>

X. BIBLIOGRAPHY (OR REFERENCES) RECENT & CLASSICAL

8. Arbogast, Stephen V., 2013, Resisting Corporate Corruption: Cases in Practical Ethics From Enron Through The Financial Crisis, 2nd Edition. Wiley

9. Bair, S. (2012) Bull by the Horns. Free Press, NY, EEUU. ISBN: 978-1-4516-7248-0 (se recomienda el e-book 978-1-4516-7250-3)
10. Cochrane, J. (2005). Time Series for Macroeconomics and Finance. can be downloaded at http://faculty.chicagogsb.edu/john.cochrane/research/Papers/time_series_book.pdf.
11. Dornbusch, Rudiger, Stanley Fischer, y Richard Startz (2013) Macroeconomics. 12th Edition: McGraw-Hill-Irwin.
12. Ennis, H.M. and T. Keister (2008) Understanding Monetary Policy Implementation. *Economic Quarterly*, Vol. 94: 235-263.
13. Estrella, A. (2005). The Yield Curve as a Leading Indicator: Frequently Asked Questions, Federal Reserve Bank of New York. (available at: https://www.newyorkfed.org/medialibrary/media/research/capital_markets/ycfaq.pdf)
14. Giesecke, K., F.A. Longstaff, S. Schaefer and I. Strebulaev, 2011, Corporate bond default risk: A 150-year perspective, *Journal of Financial Economics*, Vol. 102: 233–250.
15. Greenspan, A. (2007) The Age of Turbulence. The Penguin Press.
16. Guembel, A. y O. Sussman, 2009, Sovereign Debt without Default Penalties, *The Review of Economic Studies*, Vol. 76: 1297-1320.
17. Holmström, B. and J. Tirole (2011) Inside and Outside Liquidity. MIT Press.
18. Kwak, J. (2017) Economism: Bad Economics and the Rise of Inequality. Vintage books.
19. Labonte, Marc (2019) “Monetary Policy and the Federal Reserve: Current Policy and Conditions”. Congressional Research Service. https://www.everycrsreport.com/files/20190904_RL30354_1b3665ffb1bddc0226215678009bc470f343e866.pdf
20. Meltzer, Allan H. (2003) A History of the Federal Reserve, Vol. 1: 1913 – 1951. University of Chicago Press.
21. Meyer, L. H. (May 21, 2001) “Comparative Central Banking and the Politics of Monetary Policy” Retrieved at www.federalreserve.gov/boarddocs/speeches/2001/200105212/default.htm
22. Meyer, L. H. (October 24, 2000) “The Politics of Monetary Policy: Balancing Independence and Accountability” Retrieved from <https://www.federalreserve.gov/boarddocs/speeches/2000/20001024.htm>
23. Mishkin, F.S. (2007) Monetary Policy Strategy. MIT Press.
24. Orphanides, Athanasios (2018) The Boundaries of Central Bank Independence: Lessons from Unconventional Times. Discussion Paper No. 2018-E-10. Bank of Japan. <http://www.imes.boj.or.jp/research/papers/english/18-E-10.pdf>

25. Rothbard, Murray N (1999) The Origins of the Federal Reserve. *Quarterly Journal of Austrian Economics*, 2:3(3-51). Retrieved at www.mises.org/journals/qjae/pdf/qjae2_3_1.pdf
26. Shostak, Frank (2006) "Did Phelps Really Explain Stagflation?" Retrieved at www.mises.org/story/2351
27. Shostak, Frank (2007) "What Caused the Liquidity Crunch?" Retrieved at www.mises.org/story/2667
28. Smith, Vera C. (1990) The Rationale of Central Banking and the Free Banking Alternative. Liberty Press. Retrieved at www.econlib.org/library/LFBooks/SmithV/smvRCBtoc.html
29. Toniolo, G. (2005) Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge University Press.
30. Walsh, C.E. (2003) Monetary Theory and Policy. MIT Press

Other fundamental tools:

1. Computer with internet access
2. Proficiency in Blackboard (it is highly recommended to use either Mozilla's Firefox or Google Chrome when accessing Blackboard -- DO NOT USE EXPLORER)

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