

Economics 950
Monetary Economics
Fall 2015
Gerald P. Dwyer

Class is from 2:30-3:45 Monday and Wednesday. Office hours are from about 9 AM to 11:00 AM on Monday and Wednesday. Appointments always can be made; I'm just not promising to be available at other times without an appointment. My email address is gdwyer@clermson.edu and the phone number is 864-656-3481.

GENERAL

One purpose of this course is to provide you with the knowledge any economist should have about monetary economics. This includes the role of money in the economy, how money can enhance or inhibit people's ability to pursue their goals and the role of government in the monetary system. Another purpose of the course is to give you the basis for the knowledge that a specialist in monetary economics has to have. Another purpose of this course is to extend your ability to evaluate and conduct empirical research.

Besides covering general topics such as why people use money, this course will cover other topics such as financial crises and cryptocurrencies which sometimes are called "digital currencies" and "virtual currencies."

TEXTS

Required Book

Monetary Theory and Policy, Third edition
by Carl E. Walsh

This is a good, general book aimed at Ph.D. students. We will use a fair number of chapters out of the book. The book offers general theoretical analysis and summaries of the literature that are reasonably comprehensible and thorough.

Other material will be assigned including chapters out of books. This additional material will be available on Blackboard.

Recommended Book

The ABCs of RBCs
by George McCandless

This is an excellent introduction to developing dynamic macroeconomic models in a variety of contexts. It has more expository material than Walsh's book but does not have summaries of the literature.

SOFTWARE

I do not care what statistical package you use if you do any empirical work related to this class.

Many and maybe most macroeconomists use Matlab. I prefer the open-source program R. Some familiarity with a programming language makes R relatively easy to use but R is not for everyone. I also use EViews because it is menu-driven, has many time-series procedures and can be programmed if you wish. The student version of EViews is relatively inexpensive. There may be a copy of EViews available in the student lab. I have used SAS in the past and written programs in C. Some economists use Stata. All of these programs and others can be productive in empirical research.

ATTENDANCE POLICY

If you think that I should monitor your attendance, you are in the wrong program.

HOMEWORK

Like all other aspects of Economics, you cannot learn monetary economics by memorizing or just reading. You can master the material only if you work through the material with thought. I do not anticipate having formal homework. At this point in your career, you should not need graded homework to induce you to study carefully and work through material.

“Reading” a theoretical analysis means “working through it”. This means sitting with paper and pencil and working through the steps, making sure that you yourself can go from one step to the next and that you understand why that step is the right one to make.

In addition, at points in the course, I will indicate that “You should work through this yourself.” When I say that, I mean that you will know that you have a good grasp of the material if you can do it and should indeed do what I am suggesting. If you encounter problems, ask during the next class or so and I will work through it or at least provide a detailed outline of how to work through it.

“Reading” an empirical paper means critically assessing the evidence presented, i.e. reading it over a couple of times -- more detailed reading each time -- and thinking about the informativeness of the evidence presented and any problems with the empirical analysis.

Questions that arise can be discussed in class or after class, during office hours or at other times. Your questions are likely to be the same questions others have; you will be doing everyone else a favor if you ask questions in class.

PAPER

This course requires a paper on a topic related to monetary and financial economics. **A brief summary of your intended paper** including a brief review of relevant literature **is due September 9**. This summary will not be graded. This summary provides a basis for us to agree on a topic which can result in a solid paper. See “Notes for the Paper” below for some guidance on choosing a topic. The paper is due on Monday, November 30.

TESTS

There will be one midterm and one final. The final will be comprehensive.

The midterm will be on October 19 during the regular class period. **The final will be a take-home exam due on Monday, December 7**. I expect that you will work on the exam with others but you must write up your own answers to the questions.

GRADES

Your grade will be based on the exams and the paper. The paper will be one third of your grade. The midterm will be one quarter of your grade. The final will be five-twelfths of your grade.

ACADEMIC INTEGRITY

It is written: “As members of the Clemson University community, we have inherited Thomas Green Clemson’s vision of this institution as a ‘high seminary of learning.’ Fundamental to this vision is a mutual commitment to truthfulness, honor, and responsibility, without which we cannot earn the trust and respect of others. Furthermore, we recognize that academic dishonesty detracts from the value of a Clemson degree. Therefore, we shall not tolerate lying, cheating, or stealing in any form.”

STUDENTS WITH DISABILITIES

Students with disabilities who need accommodations should make an appointment with Dr. Arlene Stewart, Director of Disability Services, to discuss specific needs within the first month of classes. Students should present a Faculty Accommodation Letter from Student Disability Services to me. Student Disability Services is located in Suite 239 Academic Success Building (656-6848; sds-l@clemson.edu). Please be aware that accommodations are not retroactive and new Faculty Accommodation Letters must be presented each semester.

READING LIST

You should read over the material for each class *before* class. Each class, I will tell you what will be covered in the next class. If I forget to mention what to read and you are the least bit unsure, please ask. Articles and chapters from books other than Walsh will be available on the class website. It is quite possible that I will add material as the semester proceeds. If so, I will make the addition clear.

Topic	Reading
Money, Inflation and Real Income – Theory	Friedman, “The Optimal Quantity of Money”, <i>The Optimal Quantity of Money and Other Essays</i> , Ch. 1
Money, Inflation and Real Income – Empirical analysis	Dwyer, Gerald P., and R. W. Hafer, 1999, “Are Money Growth and Inflation Still Related?”, <i>Federal Reserve Bank of Economic Review</i> , Second Quarter Walsh*, Ch. 1 Kishor, N. Kundan, and Levis Kochin, 2007, “The Success of the Fed and the Death of Monetarism”, <i>Economic Inquiry</i> , January. McCallum, Bennett T., and Edward Nelson, 2010, “Money and Inflation: Some Critical Issues”
Infinitely-lived Households and Ricardian Equivalence	McCallum, Bennett J., 1984, “Are Bond-Financed Deficits Inflationary? A Ricardian Analysis” <i>Journal of Political Economy</i> 92 (February), 123-35.
Dynamic Recursive Economies	McCandless, George, 2008. <i>The ABCs of RBCs</i> , Chs. 3, 4 and 5
Why Do People Hold Money? Money in the Utility Function	Walsh, Ch. 2
Money and the Government’s Budget	Walsh, Ch. 4
Discretionary Policy and Rules – Time Inconsistency	Walsh, Ch. 7
Financial Markets and Monetary Policy	Walsh, Ch. 10
The Private Financial Crisis of 2007-2008	Dwyer, Gerald P., and Paula Tkac, 2009, “The Financial Crisis of 2008 in Fixed-income Markets,” <i>Journal of International Money and Finance</i> 28, 1293-1316 Melvin, Michael, and Mark P. Taylor, 2009, “The Crisis in the Foreign Exchange Market,” <i>Journal of International Money and Finance</i> 82, 1317-30
Bank Runs	Diamond, Douglas W., and Philip H. Dybvig, 1983, “Bank Runs, Deposit Insurance, and Liquidity,” <i>Journal of Political Economy</i> 91 (June), 401-19 Allen, Franklin, and Douglas Gale, 2007, <i>Understanding Financial Crises</i> , Ch.2 (basic background not covered in class) and Ch. 3

Financial Crises, Debt and
Recessions

Reinhart, Carmen M., and Kenneth S. Rogoff, 2009, "The Aftermath
of Financial Crises," 2009

Reinhart, Carmen M., and Kenneth S. Rogoff, 2010, Growth in a
Time of Debt," *American Economic Review* 100 (May), 573-78

Reinhart, Carmen M., and Kenneth S. Rogoff, 2012, "Public Debt
Overhangs", *Journal of Economic Perspectives* 26 (Summer), 69-86

Herndon, Thomas, Michael Ash and Robert Pollin, 2014, "Does
High Public Debt Consistently Stifle Economic Growth? A Critique
of Reinhart and Rogoff," 2014, *Cambridge Journal of Economics* 38
(2), 257-79

Dwyer, Gerald P., John Devereux, Scott Baier and Robert Tamura,
2013, "Recessions, Growth and Banking Crises, *Journal of
International Money and Finance* 38 (November), 18-40

Dwyer, Gerald P., and John Devereux, 2015, "What Determines the
Depth of the Recession and the Length of the Recovery After a
Banking Crisis?", working paper.

Digital Currencies

Selgin, George, 2014, "Synthetic Commodity Money," *Journal of
Financial Stability*, forthcoming

Dwyer, Gerald P., 2014, "The Economics of Bitcoin and Other
Digital Currencies", *Journal of Financial Stability*

Dwyer, Gerald P., and Norbert Michel. Heritage Backgrounder
Paper on Bitcoin

Quantitative Easing

Material to be determined

*"Walsh" refers to *Monetary Theory and Policy*, Third Edition by Carl Walsh.

NOTES FOR THE PAPER

A brief summary of your intended paper including a brief review of relevant literature is due September 9.

The purpose of this paper is to examine a substantive economic or financial question of interest to you that is at least loosely related to monetary economics, as broadly conceived in this course.

You might do an in-depth review of the literature (although not one already done in detail by someone else obviously.) This would be an analytical summary of the literature, not a chronological summary just cataloging results in papers. This summary would analyze the issues addressed in the papers, summarize differences in approach or assumptions or data that might explain differences between them and reach a reasonable conclusion about what can be learned from the papers and what are open issues. (The conclusions should be yours and need not be ones that others, including me, would agree with, but they should be supportable by the literature.)

You also might be interested in seeing whether you get results presented in an existing paper based on the same data, newer data or different data. This would mean acquiring the data, doing whatever is done in the paper on which your work is based, and following up with any additional empirical analysis that you think is pertinent. (This can be harder than it sounds.)

You might write about a topic discussed in class for which more could be done. You should start from an underlying question suggested by theoretical and empirical literature for which more analysis is potentially informative. I expect you to provide a brief review of the literature, which need be no more than a couple of pages. You then would apply statistical techniques, which might be no more complicated than a regression, to estimate aspects of some relationship of interest. The main point would be to acquire some skill in writing a potentially informative empirical paper. If the paper is theoretical, then the theoretical analysis should have the potential to resolve a theoretical question or else suggest an econometric test. While this paper need not be publishable, the topic should reflect an underlying issue of interest.

Your paper might be preliminary work on research you expect to pursue further. In this case, we would have to agree about how far your analysis should go to make an acceptable paper for the course.

I will read over the summary and make suggestions to help you improve the paper and to increase the probability of a good grade.

NOTE: If the proposed paper is an extension of a paper from another course, attach a copy of that paper in its current state.