

Economics 861.01
Monetary Economics I
Fall 1998

Wednesday and Friday, 1:30-2:45 pm
Carney Hall, Room 11

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Office Hours: Wednesday, 12-1 pm and Friday, 3-4 pm

Course Description

This course will survey recent theoretical work in monetary economics. After a brief introduction to some stylized facts and a review of the tools of dynamic, stochastic, general equilibrium analysis, our attention will focus on two questions of principal interest to monetary theorists:

(1) Why is intrinsically useless paper currency valued in equilibrium?

(2) What features of the economic environment account for the observed relationships between policy-induced movements in the money supply and fluctuations in output, prices, and interest rates?

Course Materials

The main text for the course is:

Sargent, Thomas J. *Dynamic Macroeconomic Theory*. Cambridge: Harvard University Press, 1987.

A useful supplement is:

Manuelli, Rodolfo E. and Thomas J. Sargent. *Exercises in Dynamic Macroeconomic Theory*. Cambridge: Harvard University Press, 1987.

Other references are listed in the course outline, below.

Course Requirements and Grading

There are two ways to receive a grade for this course.

The first way is to take a midterm exam and a final exam. If you choose this option, the midterm will determine 40 percent of your course grade, and the final will determine the remaining 60 percent of your course grade.

The second way is to write a term paper on some topic related to the course. If you choose this option, you must submit a brief, written description of your topic on or before the date of the midterm exam, and you must submit the final draft of your paper on or before the date of the final exam. Provided that you meet both of these deadlines, your course grade will be based entirely on the paper.

During the semester, I will distribute a series of problem sets and solutions. These problem sets are designed to help you review the material presented in class and to help you prepare for the exams; they will not be collected or graded.

Office Hours

I will hold regular office hours on Wednesdays from 12 to 1 pm and on Fridays from 3 to 4 pm in Carney Hall, Room 143. I will also be available at other times; to make an appointment, you can reach me by phone at 552-3687 or by e-mail at peter.ireland@bc.edu.

Course Outline

Introduction

1. Money and the Business Cycle: Stylized Facts

Friedman, Milton. "The Role of Monetary Policy." *American Economic Review* 58 (March 1968): 1-17.

Cooley, Thomas F. and Gary D. Hansen. "Money and the Business Cycle." In Thomas F. Cooley, ed. *Frontiers of Business Cycle Research*. Princeton: Princeton University Press, 1995.

2. Dynamic Programming

Sargent, Chapter 1.

3. Asset Prices and Consumption

Sargent, Chapter 3.

Models of Monetary Economies

4. Money in the Utility Function

Sargent, Chapter 4.

Friedman, Milton. "The Optimum Quantity of Money." In *The Optimum Quantity of Money and Other Essays*. Chicago: Aldine Publishing Company, 1969.

5. Cash-in-Advance

Sargent, Chapter 5.

6. Overlapping Generations

Sargent, Chapter 7.

7. Search

Kiyotaki, Nobuhiro and Randall Wright. "A Search-Theoretic Approach to Monetary Economics." *American Economic Review* 83 (March 1993): 63-77.

Models of Money and the Business Cycle

8. Imperfect Information

Lucas, Robert E., Jr. "Expectations and the Neutrality of Money." *Journal of Economic Theory* 4 (April 1972): 103-124.

9. Financial Market Imperfections

Lucas, Robert E., Jr. "Liquidity and Interest Rates." *Journal of Economic Theory* 50 (April 1990): 237-264.

10. Sticky Prices

Ireland, Peter N. "The Role of Countercyclical Monetary Policy." *Journal of Political Economy* 104 (August 1996): 704-723.