

McMaster University
Department of Economics

Economics 3K03

Topics in Monetary Economics
Fall 2015

Instructor: César Sosa-Padilla
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Lecture Hours: Tuesdays 7pm-10pm
Room: BSB 119

Teaching Assistant

The TA for the course is Muhebullah Karimzada. His email is karimzm@mcmaster.ca. His office hours will be on Thursdays from 1pm till 2pm on KTH 331.

Course Description

This course presents an exposition about lessons of monetary economics learned from overlapping generation models. Throughout the course we will emphasize the theoretical micro-foundations behind money, by modeling the behavior of rational agents in a market setting. These models improve our understanding of the most basic questions in monetary economics: How does money promote exchange? What should serve as money? What causes inflation? What is the (social) cost of inflation? What's the effect of money on savings, investment and output?

Course Content The course will closely follow the required textbook (details below) as it is the *gold standard* in undergraduate monetary economics. From time to time, I will assign additional readings. The tentative (and intentionally ambitious) outline is as follows:

Warm-up

1. Lucas, Robert E. "What economists do." *Journal of Applied Economics* 14.1 (2011): 1-4.
2. Borges, Jorge Luis. "Funes the Memorious (Funes el Memorioso)." (1944). (not about Economics nor mandatory reading, but still recommended)

Part I: Money

1. A Simple Model of Money (ch. 1)
2. Barter and Commodity Money (ch. 2)
3. Inflation (ch. 3)
4. Price Surprises and the "Lucas Critique" (ch. 5)

Part II: Banking

1. A Model with Capital (ch. 6)
2. Liquidity and Financial Intermediation (ch. 7)

3. Central Banking and the Money Supply (ch. 8)
4. Money Stock Fluctuations (ch. 9)
5. Fully-Backed Central Bank Money (ch. 10)
6. The Payment System (ch. 11)
7. Bank Risk, Liquidity Risk and Bank Runs (ch. 12 and 13)

Part III: Government Debt

1. Deficits and the Government Debt (ch. 14)
2. Savings and Investment (ch. 15)
3. Real effects of Government Debt (ch. 16)
4. The temptation of Inflation (ch. 17)

Required Course Material

- Modeling Monetary Economies (3rd Edition), by Bruce Champ, Scott Freeman, and Joseph Haslag, Cambridge University Press 2011.
- The McMaster University standard calculator (the Casio FX-991) only is permitted for the tests and the final exam.

Course web site

In this course we will be using Avenue to Learn. Students should be aware that, when they access the electronic components of this course, private information such as first and last names, usernames for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

Here are some of the items you will find on the course web page:

- Office hours of the instructor and teaching assistant(s)
- Selected readings
- Slides
- Sample exercises
- Some handouts/lecture notes
- Grades

Assessment and Grading Scheme

1. Your final grade (FG) will depend on your performance on the following assessments: two midterm exams (ME), and a final exam (FE).

2. The ME_1 is scheduled for **Tuesday October 6th 7pm-9pm** and ME_2 is scheduled for **Tuesday November 17th 7pm-9pm**. Both midterms will take place in the usual classroom.
3. The date for the final exam (FE) is still to be determined by the University and will be announced to you as soon as it becomes public.
4. All midterms and final exams are **individual and closed-book**.
5. Your grade for the course will be calculated as follows:

$$FG = 0.30 * \max\{ME_1, FE\} + 0.30 * \max\{ME_2, FE\} + 0.40 * FE$$
6. There will be no makeup exams.
7. There will be no extensions of deadlines nor opportunities for bonus points.
8. MSFAs: students that miss an assessment (and can provide the appropriate documentation) will have the weight transferred to the final exam (FE). Therefore, there is no “gain” in using MSAFs for this course.
9. It is mandatory that students bring their McMaster student ID card to the midterm and the final exams.
10. A student who does not respect the time limits during a test will get a 10% penalty on that test.
11. Method of evaluation for midterm and final exams: short-answer questions, numerical calculations, mathematical derivations, true-false, multiple choice, and fill-in-the-blank questions
12. Tests will be marked by the TA according to my instructions. If you want clarifications about the marking of a test or assignment please contact the TA first and then contact me if you were unable to resolve your problem with him/her. Marking guidelines provided to the TA will be posted on Avenue to Learn.
13. Your grades on problem sets and exams will be posted on Avenue to Learn. Please immediately report to the instructor any discrepancy between the posted and actual grades.

Contacting the Instructor

My office hours are listed on page 1. Please feel free to come to my office at those times to seek help or to discuss matters related to the course. Please note that there is no guarantee I will be available to assist you (even if I am in my office) if you drop by at random times outside of my designated office hours.

If my scheduled office hours and those of the TA conflict with your schedule, you can request an appointment with me via email at cesarsp@mcmaster.ca. Please insure that your email has subject line starting with “ECON 3K03,” this will minimize the risk of your email being overlooked or perceived as spam. The email tool in Avenue to Learn is not great so I rarely use it.

Please note that a **policy of the Faculty of Social Sciences** which came into effect September 1, 2010 states “all e-mail communication sent from students to instructors (including TAs), and from students to staff, must originate from the student’s own McMaster University e-mail account. This policy protects confidentiality and confirms the identity of the student. It is the student’s responsibility to ensure that communication is sent to the university from a McMaster account. If an instructor becomes aware that a communication has come from an alternate address, the instructor may not reply at his or her discretion.”

Guidelines and Expectations

Students are expected to come to class and to participate in various ways to the lectures, either by asking questions, by pointing out errors on the slides or by answering the questions I will ask during the lectures. While I will try my best to post on Avenue to Learn announcements made in class, there might be a lag in posting the information or I may inadvertently forget to post something. The instructor takes no responsibility for any adverse effects students may experience as a result of his omission to post on Avenue to Learn an announcement made in class.

Most of the time I will deliver my lectures using slides. The slides will be distributed through Avenue to Learn, after classes. Occasionally, I will use the blackboard/whiteboard to cover additional material. The slides are not lecture notes. They are mainly providing outlines of what will be discussed in class. I will set the lecturing pace based on the assumption that you have copies of the slides with you in class.

A reading schedule is posted on Avenue to Learn. Students are assumed to have read the material ahead of the lectures. Students should NOT expect me to talk about every single textbook page. The lectures will focus on the most important and challenging parts of the material. More basic material will be left for the students to study on their own. I will refer to this more basic material in the lectures, hence the need to read ahead to understand the lectures.

Topics covered in the textbook which students are not responsible for will be posted on Avenue to Learn.

Academic Dishonesty

You are expected to exhibit honesty and use ethical behavior in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behavior can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at <http://www.mcmaster.ca/academicintegrity>. The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations.

At certain points in the course it may make good sense to modify the course content described on pages 1 and 2. The instructor reserves the right to modify elements of the course and will notify students accordingly (in class and post any changes to Avenue to Learn).

September 7, 2015