

**ECONOMICS 453**  
**MONETARY THEORY AND POLICY**

Instructor: Bret P. Mackay  
Office: 181 FOB  
Phone: 422-2253  
Email: [bret\\_mackay@byu.edu](mailto:bret_mackay@byu.edu)

**COURSE DESCRIPTION:**

This is a course on monetary theory and policy. We will explore macroeconomic theories of money demand, money supply, monetary policy, the transmission of monetary policy, and the “new economy”. This is *not* a course on the microeconomics of financial theory or markets (see Economics 450). The prerequisites for this course are Economics 380, Math 112 and Econ 388. Calculus will be used a fair amount and my experience has been that those not properly prepared can be overwhelmed by the material.

**ORGANIZATION:**

Your grade will be based on the following activities:

- Midterm Exam (100 points)
- Comprehensive Final Exam (150 points)
- Four short papers (50 points each)
- Group Presentation (50 points)
- Problem Sets

**TEXTS:**

- I have prepared a reading packet for this course. This packet is **required**.
- A great resource is the Federal Reserve Board Web page, <http://www.ny.frb.org/pihome/addpub/>.

**SHORT PAPERS:**

You are **required** to write four short papers of (no more than) 2 pages of text.

**Paper 1:** Forecast inflation using time series methods. Given your forecast and other information, you will ‘predict’ the actions of the Federal Reserve prior to the next announcement of monetary policy.

**Paper 2:** Estimate a money demand equation and explain the results. The paper consists of a description of the data, methods, and analysis of results e.g., the signs and magnitudes of the estimated coefficients.

**Paper 3:** Choose a country other than the U.S. and write a short paper about the monetary policy in that country. Support your discussion using empirical or analytic models.

**Paper 4:** Read Mishkin Channels of Monetary Transmission Mechanism and write a paper detailing why the (one) channel you select “best” describes how the current economy works.

---

## TENTATIVE CLASS SCHEDULE:

<i>Date</i>	<i>Topic</i>	<i>Reading</i>	<i>Assignments</i>
Jan 8	Definition of Money	Ch. 2 McCallum	
Jan 10	Financial Factors I	Edwards and Mishkin	Summary 1 on E&M
Jan 15	<b>Holiday—No Class</b>		
Jan 17	Financial Factors II	Mishkin	Summary 2 on Mishkin
Jan 22	Interest Rates	TBA	TBA
Jan 24	Time Series Models	Lecture Notes	TBA
Jan 29	Time Series cont.	Lecture Notes	TBA
Jan 31	T.S. Applications	Lecture Notes	TBA
<b><i>Paper 1: Inflation Forecast Paper Due— 2/5 5 p.m.</i></b>			
Feb 5	Money Demand: STM	Ch. 3 McCallum	Data Gathering
Feb 7	Money Demand: STM	Ch. 3 McCallum	TBA
Feb 12	Money Demand: BTM	Ch. 3 McCallum	TBA
Feb 14	Empirical MD Models	Ch. 3 McCallum	Empirical MD Estimation
Feb 19	<b>Holiday—No Class</b>		
Feb 20 **	The Central Bank	TBA	TBA
Feb 21	Money Supply: Basics	Ch. 4 McCallum	TBA
<b><i>Paper 2 Money Demand Estimation Due—2/23 5 p.m.</i></b>			
Feb 26	Money Supply: Indet.	Ch. 4 McCallum	TBA
Feb 28	<b><i>EXAM DAY—No Class</i></b>		
<b><i>Midterm Exam: 2/28-2/29 Testing Center</i></b>			
March 5	General Equilibrium	Ch. 5 McCallum	TBA
March 7	GE: Graphs	Ch. 5 McCallum	TBA
March 12	GE: Graphs & Algebra	Instructor Notes	TBA
March 14	GE: Algebra Cont.	Instructor Notes	TBA
March 19	P1: Friedman	"Monetary Policy"	Summary 3 Friedman MP
March 21	P2: Blinder	"Central-Bank Credibility"	Summary 4 Blinder
<b><i>Paper 3: "Foreign Country Monetary Policy" Due—Monday 3/26 5 p.m.</i></b>			
March 26	P3: Friedman	"Interest Rates"	Summary 5 Friedman IR
March 28	P4: Mishkin	"Channels"	Summary 6 Mishkin
April 2	P4: Mishkin	"Channels"	Continued
April 4	P5: Kashyap and Stein	"Million Banks"	Summary 7 K&S
April 9	P6: Cecchetti	"Legal"	Summary 8 Cecchetti
<b><i>Paper 4 Channels of MP Due—4/9 5 p.m.</i></b>			
April 11	Open Economy MP	Lecture Notes	TBA
April 16	P7: Friedman	"Decoupling"	Summary 9 Friedman
	P8: Cecchetti	"New Economy"	Summary 10 Cecchetti
April 18-19	<b><i>Reading Days</i></b>		
<b><i>Final Exam: 4/24 7pm-10pm</i></b>			