

**YORK UNIVERSITY
FACULTY OF LIBERAL ARTS AND PROFESSIONAL STUDIES
DEPARTMENT OF ECONOMICS**

WINTER 2020

AP/ECON 3440 3.0 Section M - Monetary Economics II: Theory and Policy

Course Webpage: Lecture notes and readings will be posted on the Moodle page for this course at: <http://moodle.info.yorku.ca/>

Term: Winter Term 2020

Prerequisites: AP/ECON1000 3.00 and AP/ECON 1010 3.00 or equivalents.

Course credit exclusion: GL/ECON 3390 3.00

Course Instructor

Professor Brenda Spotton Visano

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Course consultation hours: Tuesdays 13:00h-15:00h (i.e., 1pm - 3pm); *no office hours February 18th*

Class Meets: Time and Location

Class Meet Times: TR 10:00 - 11:30am

Class Meet Location: CB121

Calendar Course Description

Studies the central bank and its use of monetary theory to control growth and fluctuations in the Canadian economy through the chartered banking system. Considers links between Canada's financial system and the international financial system, with particular emphasis on the restraining influence of international financial requirements on the attainment of national goals.

Expanded Course Description

The purpose of this course is to assist students in developing a critical overview of contemporary monetary economics. The dominant theory will be compared and contrasted with an alternative heterodox perspective on the role of money in the economy. The implications of these different theories for the conduct of Canadian monetary policy will be the focus of the second half of the course. Emerging issues confronting monetary policy makers will be introduced.

Learning Objectives

1. Compare and contrast alternative theories of monetary economics
2. Identify fundamental principles guiding the conduct of monetary policy implied by each theory
3. Describe emerging issues and the challenges these issues present for the conduct of monetary policy
4. Discuss and analyse current issues in written and graphical argument

Course Delivery

The course involves formal lectures by the instructor and guided class discussions around a series of topics designed to facilitate and motivate students' own exploration of the topics we cover. In addition to lectures, class time will engage various means of group interaction (small group discussions, large group discussions and "brainstorming," Q&A, class debate).

Class Notes and Class Attendance

Class notes will be posted on the course webpage. Class notes are offered as a guide and complement to (not substitute for) in-class discussions.

Students who attend class regularly will be

- considered for bonus marks to a maximum of 2%,
- offered the opportunity to submit practice questions for early feedback, and
- granted requests for letters of reference.

Course Text / Readings

There is no assigned textbook for this course.

Required Readings

Required Readings are listed below in the Topics Outline. Copies of all required readings are available on the course website. Required Readings are texts that directly complement the lecture and will form part of the material on which students will be evaluated.

Advanced Readings – FYI only

Material listed under “Advanced Reading” is FYI (For Your Information). It is material that may be of interest to those who seek additional information for their own benefit.

Evaluation *

**Final course grades may be adjusted to conform to the Faculty of LA&PS grades distribution profiles.*

Midterm Test (worth 40%): February 25, 2020, during class time; Topics 1-3. Questions will focus on monetary theories and involve both modelling and short answer analysis and critique. The midterm exam will be held during class time.

Final Exam (worth 60%): In exam period (April 7-25, 2020); Topics 4-7. The final exam will be held at a date and location to be set by the Registrar’s Office. Questions will focus on monetary policy and involve short answer/essay style analysis and critique, primarily. The final exam will cover material in the second half of the course, primarily.

Class Attendance: Students who attend class regularly are eligible for Bonus Marks, to a maximum 2%, by attending most classes in the first half of the course (1%) and most classes in the second half (1%).

Missed Tests: Students with a documented reason for missing a course test, such as illness, compassionate grounds, etc., which is confirmed by supporting documentation (e.g., doctor’s letter) may request accommodation from the Course Instructor. Further extensions or accommodation will require students to submit a formal petition to the Faculty.

Missed Midterm: For students who provide appropriate and timely documentation for missing the midterm, a deferred midterm will be held at a date and location to be set by the instructor.

Missed Final Exam: A student who is absent from the final exam and requests deferred standing, must consult the Guidelines for Deferred Standing, available at: <http://econ.laps.yorku.ca/students/academic-policies-procedure/deferred-standing/>

The date and time of the deferred final exam will be set at a later date. Students who may require further extensions or accommodation must submit a formal petition to the Faculty.

Grading: The grading scheme for the course conforms to the 9-point grading system used in undergraduate programs at York (e.g., A+ = 9, A = 8, B+ = 7, C+ = 5, etc.). Assignments and tests will bear either a letter grade designation or a corresponding number grade (e.g. A+ = 90 to 100, A = 80 to 90, B+ = 75 to 79, etc.)

For a full description of York grading system see the York University Senate Policy on *Common Grading Scheme for Undergraduate Faculties*: <https://secretariat-policies.info.yorku.ca/policies/common-grading-scheme-for-undergraduate-faculties/>

IMPORTANT COURSE INFORMATION FOR STUDENTS

All students are expected to familiarize themselves with the following information, available on the Senate Committee on Academic Standards, Curriculum & Pedagogy webpage (see Reports, Initiatives, Documents) - <http://secretariat-policies.info.yorku.ca/>

- Senate Policy on Academic Honesty and the Academic Integrity Website
- Ethics Review Process for research involving human participants
- Course requirement accommodation for students with disabilities, including physical, medical, systemic, learning and psychiatric disabilities
- Student Conduct Standards
- Religious Observance Accommodation

Course ADD/DROP Deadlines

	Fall Term 2019 (F) *	Winter Term 2020(W) *
Last date to add a course without permission of instructor (also see Financial Deadlines)	Sept. 17	Jan. 19
Last date to add a course with permission of instructor (also see Financial Deadlines)	Oct. 1	Feb. 3
Last date to drop a course without receiving a grade (also see Financial Deadlines)	Nov. 8	March 13
Course Withdrawal Period (withdraw from a course and receive a grade of "W" on transcript – see note below) **	Nov. 9 - Dec. 3	March 14 - Apr. 5

* <https://registrar.yorku.ca/enrol/dates/fw19>

****Policy and Guidelines on Withdrawn from Course:**

<http://secretariat-policies.info.yorku.ca/policies/withdrawn-from-course-w-policy-and-guidelines/>

READING LIST

All readings are available through open sources on the internet or via the York University Library system. Copies of all required readings are available on the course website.

Topic 1: Macroeconomic modeling for monetary policy

Required Reading

Chapter 19. "Understanding Business Cycle Fluctuations" in Stephen Cecchetti and Angela Redish *Money, Banking, and Financial Markets* McGraw-Hill Ryerson 2010, pp. 426-451

Dorich, J., Reza, A., & Sarker, S. (2017). An Update on the Neutral Rate of Interest. Bank of Canada Review, 2017(Autumn), 27-41. <https://www.bankofcanada.ca/wp-content/uploads/2017/11/boc-review-autumn2017-dorich.pdf>

Advanced reading

Lucas Jr, R. E. (1996). Nobel lecture: Monetary neutrality. *Journal of political economy*, 104(4), 661-682.

Galí, J., & Gertler, M. (2007). Macroeconomic modeling for monetary policy evaluation. *Journal of economic perspectives*, 21(4), 25-46.

Galí, J. (2018). The state of New Keynesian Economics: A partial assessment. *Journal of Economic Perspectives*, 32(3), 87-112.

Topic 2: Macroeconomic modeling: Extensions and Alternatives – Financial Intermediation

Required Reading

Woodford, M. (2010). Financial intermediation and macroeconomic analysis. *Journal of Economic Perspectives*, 24(4), 21-44.

Topic 3: Macroeconomic modeling: Extensions and Alternatives – Post-Keynesian models

Required Reading

Arestis, P. (2009). The new consensus in macroeconomics: a critical appraisal. In *Macroeconomic theory and macroeconomic pedagogy* (pp. 100-117). Palgrave Macmillan, London.

Modern monetary theory (MMT) Video interview of Stephanie Kelton @ 4:15-13:00
Bernie Sanders' 2016 Advisor On Trump's Economy And Modern Monetary Theory (CNBC)
https://www.youtube.com/watch?v=7cho7naef_k

Further Reading

Matthews, D. (2012) Modern Monetary Theory, an unconventional take on economic strategy. Washington Post. February 8, 2011. As posted at
<http://cas2.umkc.edu/economics/people/facultyPages/wray/pubs/washingtonpost.pdf>

Topic 4: Phillips Curves

Required Reading

Brouillette, D., Dockrill, M., Lao, H., & Savoie-Chabot, L. (2018). Bending the Curves: Wages and Inflation. Bank of Canada. <https://www.bankofcanada.ca/2018/05/staff-analytical-note-2018-15/>

Wilkins, C. A. (2019). A Look Under the Hood of Canada's Job Market. Speech at the Toronto Region Board of Trade, Toronto, Ontario, January, 31. <https://www.bankofcanada.ca/2019/01/look-under-hood-canadas-job-market/>

Advanced reading

Robert Amano, Dany Brouillette, Stefano Gnocchi, and Natalia Kyui (2016) "The Micro and Macro of Downward Nominal Wage Rigidity" Bank of Canada Review, 2016(Spring), 15-28.

Bullard, J. (2018, June). The case of the disappearing Phillips Curve. In speech delivered at the 2018 ECB Forum on Central Banking, Sintra, Portugal, June (Vol. 19).

Topic 5: Conventional monetary policy framework

Required Reading

Chapter 21. "Modern Monetary Policy and the Challenges Facing Central Bankers" in Stephen Cecchetti and Angela Redish *Money, Banking, and Financial Markets* McGraw-Hill Ryerson 2010, pp. 479-499

Kryvtsov, O., & Mendes, R. R. (2015). The optimal level of the inflation target: a selective review of the literature and outstanding issues (No. 2015-8). Bank of Canada Discussion Paper. <https://www.bankofcanada.ca/2015/10/discussion-paper-2015-8/>

Murray, J. (2013). Monetary policy decision making at the Bank of Canada. Bank of Canada Review, 2013(Autumn), 1-9.

Wilkins, Carolyn A. "Choosing the Best Monetary Policy Framework for Canada." Remarks at McGill University Max Bell School of Public Policy, Montréal, November 20 (2018).

Advanced Reading

Meh, C. (2011). Bank Balance Sheets, Deleveraging and the Transmission Mechanism. Bank of Canada Review, 2011(Summer), 23-34.

de Guzman, M. (2016). Market Operations and Liquidity Provision at the Bank of Canada. Bank of Canada Review, 2016(Autumn), 12-24.

Topic 6: Zero interest rates and unconventional monetary policy

Required Reading

Jonathan Witmer and Jing Yang (2016) "Estimating Canada's Effective Lower Bound" in Bank of Canada (2016). Special issue on the renewal of the inflation target. *Bank of Canada Review* Spring 2016. <https://www.bankofcanada.ca/wp-content/uploads/2016/05/boc-review-spring16.pdf>

Fontaine, J. S., Suchanek, L., & Yang, J. (2017). Unconventional Monetary Policy: The Perspective of a Small Open Economy?. Bank of Canada Review, 2017(Spring), 19-30.

Advanced Reading

Eric Santor and Lena Suchanek (2016) "A New Era of Central Banking: Unconventional Monetary Policies" in Bank of Canada (2016). Special issue on the renewal of the inflation target. *Bank of Canada Review* Spring 2016. <https://www.bankofcanada.ca/wp-content/uploads/2016/05/boc-review-spring16.pdf>

Santor, E., & Suchanek, L. (2013). Unconventional Monetary Policies: evolving practices, their effects and potential costs. Bank of Canada Review, 2013(Spring), 1-15.
<https://www.bankofcanada.ca/wp-content/uploads/2013/05/boc-review-spring13-santor.pdf>

Topic 7: Emerging Issues – The digital economy and Climate change

Required Reading

Stephen S. Poloz. (2019) Big Issues Ahead: The Bank's 2020 Vision. Remarks by Governor of the Bank of Canada Empire Club of Canada December 12, 2019 <https://www.bankofcanada.ca/wp-content/uploads/2019/12/remarks-121219.pdf>

Charbonneau, K., Evans, A., Sarker, S., & Suchanek, L. (2017). Digitalization and Inflation: A Review of the Literature. Bank of Canada.
<https://www.bankofcanada.ca/wp-content/uploads/2017/11/san2017-20.pdf>

D'Souza, C., & Williams, D. (2017). The digital economy. Bank of Canada Review, 2017(Spring), 5-18.

Molico, Miguel (2019) Researching the Economic Impacts of Climate Change - Implications for monetary policy and financial stability
<https://www.bankofcanada.ca/2019/11/researching-economic-impacts-climate-change/>

Advanced reading

Peters, G., Panayi, E., & Chapelle, A. (2015). Trends in cryptocurrencies and blockchain technologies: a monetary theory and regulation perspective. Journal of Financial Perspectives, 3(3).

Topic 8: A Modified Governor's Challenge

The Bank of Canada Governor's Challenge is a university competition designed to promote understanding of the role of monetary policy in Canada's economy.
<https://www.bankofcanada.ca/research/governors-challenge/>

Data

Statistics Canada. North American Industry Classification System (NAICS) Canada 2017 Version 3.0
<https://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=1181553>

Statistics Canada. Table 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry, monthly (x 1,000,000) <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610043405>

Statistics Canada. Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000) <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610022201>

Statistics Canada. Table 14-10-0023-01 Labour force characteristics by industry, annual (x 1,000) <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002301>

Statistics Canada. Table 14-10-0064-01 Employee wages by industry, annual
<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410006401>