Econ 5500/6500 Dr. Erturk

Spring 2014 Office: OSH 354

M W: 1:25 – 2:45 Office Hrs: T 1-2pm

**ECON 5500/6500: Monetary Theory**

The objective of the course is to provide an in-depth understanding of the role of money and financial markets in an advanced capitalist market economy. The course consists of four sections. The first section gives an introduction to money, financial intermediation and the role financial markets play in credit creation. Section II reviews standard macroeconomic analysis of money which assumes that central bank has full control over credit supply. This tacitly ignores the autonomous impact financial markets can have on credit creation. Section III discusses how macroeconomic analysis changes once we acknowledge that the central bank control over credit supply is at best imperfect, focusing in detail on how financial market conditions and fragility have become an integral part of business cycle dynamics in the age of financialization. Section IV discusses the two major historical episodes of financial crisis, the Great Depression of the 1930s and the 2008 Subprime financial crisis as case studies.

**Course Evaluation** is based on:

2 midterm and a final exam (60%)

4 group exams (20%)

Term Paper or Project (15%)

Class Participation and Attendance (5%)

All **readings** with few exceptions are from:

Knoop, T. (2008) *Modern Financial Macroeconomics. Panics, Crashes and Crises*. Blackwell.

Minsky, H. (1986) *Stabilizing An Unstable Economy*. Yale Un Press.

Rajan, R. (2010) *Fault Lines. How Hidden Fractures Still Threaten the World Economy*. Princeton Un Press

Authers, J. (2010). *The Fearful Rise of Markets*, FT Press.

**Course Outline**

1. Money and Financial Intermediation

Knoop – Chps 1 & 2

Minsky – Chps, 1 - 5

1. Money and Macroeconomics

Knoop – Chps. 3 & 4

Peterson, W. (1988). “General Models of the Economic System,” Chp 4 in his *Income, Employment and Economic Growth*.

Minsky, H. (1976). *Stabilizing an Unstable Economy*, Chps. 5 and 6

1. Financial Macroeconomics and Capital Markets

* Financial Fragility, Capital Market Volatility and the Business Cycle

Knoop – Chp. 5 & 6

Minsky - Chps. 7,8 & 9.

Knoop - Chps 7 & 8

Keynes, J.M. (1936). “Long Term Expectations,” Chp 12 of General Theory

Stiglitz, J. (1990) “Symposium on Bubbles,” Journal of Economic Perspectives, 4, pp. 13-18.

1. Financial Crises

* The Great Depression
* *Financialization* and the Current Global Financial Crisis

Knoop – case studies on Great Depression in Chps 4 & 5;

Knoop - Chps 9 & 10

Authers – Parts I & II

Rajan – Chps 1 - 7