

Econ 5500/6500
Spring 2017
M W: 3:40 – 5:00

Dr. Erturk
Office: Bldg 73, Rm 240
Office Hr: Th 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 three sections. The first section starts out with a discussion of how banks create credit and money, and discusses the role of the central bank in this process. It then discusses how money enters standard macroeconomic analysis, and highlights the two crucial simplifying assumptions textbooks make: that central bank has full and complete control over banks' credit supply and that financial markets do not matter in output determination. Section II considers how macroeconomic analysis gets transformed when these assumptions are dropped. The conceptual framework that emerges from this discussion is then used in Section III to discuss financial regulation (its historical origins in the 1930's Great Depression); financial deregulation since the 1980s, and, finally the 2008 Financial Crisis.

Course Evaluation is based on:

3 midterms (60%)
final exam (30%)
Term Paper or Project (10%)

Books:

Minsky, H. (1986) *Stabilizing An Unstable Economy*.
King, M. (2016). *The End of Alchemy*.

Other Readings:

Financial Crisis Inquiry Commission (2011). *Financial Crisis Inquiry Report*, Chps. 1-5.
Keynes, J.M. (1936). "Long Term Expectations," Chp 12 of his *General Theory*
Keynes, M. (1930). "The Great Slump of 1930." Reprinted in his *Essays in Persuasion*, Chp. 5.

- McLeay, M., Radia, A. & R. Thomas (2014b). "Money Creation in the Modern Economy." *Quarterly Bulletin Q1*
- McLeay, M., Radia, A. & R. Thomas (2014a). "Money in the Modern Economy. An Introduction," *Quarterly Bulletin Q1*
- Peterson, W. (1988). "General Models of the Economic System," Chp 4 in his *Income, Employment and Economic Growth*.
- Prasch, R. (2008) "Asset Markets: Market Dynamics when Expectations are a Consideration," Lecture 4 in his *How Markets Work*.
- Wolf, M. (2014). "How Finance Became Fragile," (Ch 4) in his *The Shifts and the Shocks*

Course Outline

I. Money Supply, Financial Intermediation and Aggregate Demand

- i. What is Money,
How is it Created?
How Does it Work?
- ii. Central Banks and Banking
Financial Intermediation and Credit Supply

McLeay, M., Radia, A. & R. Thomas (2014a).

McLeay, M., Radia, A. & R. Thomas (2014b).

<http://positivemoney.org/how-money-works/advanced/>

- iii. Money and Standard Macroeconomic Theory
Keynesian – Neoclassical Synthesis
Monetarism
Inflation Targeting

Peterson (1988).

Minsky (1986) – Chps. 5 and 6

II. Financial Macroeconomics and Capital Markets

i. Asset Markets, Banks and Credit Supply
Keynes (1936)
Prasch (2008)

ii. Business Cycle and Financial Fragility

Minsky, H. (1986) - Chps. 7,8,9

III. Financial Deregulation and Crises

- The Great Depression
- Financial Deregulation
- 2008 Financial Crisis

Keynes, M. (1930)

King, M. (2016)

Wolf (2014)

Financial Crisis Inquiry Commission (2011)