

THE UNIVERSITY OF ILLINOIS AT CHICAGO
ECON 339: MONETARY THEORY AND POLICY
SPRING 2001

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Office Hours:

Tue & Thu, 11:00-12:00
and by appointment

Required Text:

F.S.Mishkin, *The Economics of Money, Banking, and Financial Markets*, 6th edition, Addison Wesley, 2000.

Recommended Text: McArthur & Mishkin, *Study Guide*, 6th ed., Addison Wesley, 2000.

Overview:

Econ 339 is a comprehensive introduction to monetary theory and policy, the U.S. monetary system, and its relationship to international financial markets. Part One deals with the microeconomic aspects: financial instruments and institutions, interest rates, and regulation. Part Two will address the macroeconomic issues: the structure of the Federal Reserve System and the determination of money supply, the importance of international transactions and exchange rates, the basics of monetary theory, and the debate over monetary policy in an international framework.

The basis for this course is a combination of the required textbook and the class notes. Regarding the exams, you will be responsible for everything covered in the lectures. Should you miss a lecture, try to borrow a colleague's notes; usually, however, this is a poor substitute. You must also make sure that you have all the handouts distributed in class.

ECON 395 Component:

This semester's Econ 339 has a "Writing in the Disciplines" component (Econ 395). To satisfy this requirement, there will be additional writing assignments (probably two, but no more than three). Grading for this is on a Satisfactory/Unsatisfactory basis.

Grading Procedure:

One midterm (M, 30 points) and a comprehensive final (F, 50 points) will be given. In addition, two homework sets will be assigned (H1 and H2, 10 points each). Your score will be based on the following simple algorithm:

If $F \leq H1+M+H2$ then $SCORE = H1+M+H2+F$, but

if $F > H1+M+H2$ then $SCORE = 2 * F$.

Therefore, students who show a clear improvement on the final will have their midterm and homework scores discarded, and their grade will be based on the final score only. This means that you can only gain by taking the midterm and turning in the homeworks. However, all students must take the final.

No make-up exams will be offered (the only exception being a documented medical problem).

To summarize: Assignment Points

	Homework 1	10
Midterm		30
Homework 2	10	
Final	<u>50</u>	
Total		100

Broad (Tentative) Outline:

I. Introduction. (Chapters 1 and 3)

Money: Its functions and importance for the economy.

II. Part One.

1. Financial Markets. (Chapters 2, 4-7)

Short description of financial intermediaries and financial instruments.

Detailed examination of interest rates: Risk, Tax, and Term Structure. The foreign exchange market.

{ Homework 1 }

2. The Financial Environment. (Chapters 8-13)

Financial Institutions: Analysis, Regulation, and Innovation. Federal deposit insurance: Function and Problems.

{ MIDTERM }

III. Part Two.

1. The Fed and the Money Supply. (Chapters 14-20)

Structure and behavior of the Federal Reserve System. The monetary base and the money multipliers. Tools, goals, and targets of monetary policy. International dimensions.

{ Homework 2 }

2. Monetary Theory and Policy. (Chapters 21-28)

Three different views about monetary policy: Keynesians, Monetarists, and New Classicals. Recent U.S. and International empirical evidence.

{ FINAL EXAM }