

Course Outline

Course ID: EE432 Monetary Theory and Policy

Semester 2/2021 (January 10th – May 7th, 2022)

Number of Credit: 3 credits (3-0-6)

Prerequisite: EE312

Class Time and Logistic

Class day: Saturday

Class time: 9.00 AM – Noon

Teaching Materials Platform: <http://bemoodle.econ.tu.ac.th/> (Using enrollment key **1678** to access)

Meeting Platform:

Link: <https://zoom.us/j/98921840177>

Meeting ID: 989 2184 0177

Instructor:

Name: Dr. Chamadanai Mars Marknual

Office Hours: By appointment

Email: chamadanai_be@econ.tu.ac.th

Phone: Email is preferable

Course Description:

This course aims to provide the student with an introduction to the role of money, financial markets, financial institutions and monetary policy in the economy, thus facilitating a solid foundation for further study and enhancing professional capability in the financial services industry.

It will investigate the role of money, theories regarding the supply of and demand for money and the relationship between money, credit and debt will also be emphasized. The course will then study the role of financial markets in the economy with a particular emphasis on bond markets, term structure and their implications. In addition, it will further analyze the evolving roles of central banks and their views regarding execution monetary policy, including recent and historical international policy actions. Both theoretical concept and empirical evidence, especially current economic situations will be used to examine the effects of monetary policies. In terms of theory, this course will adopt macroeconomic model to study the rationale behind monetary policy and provide a thorough understanding of transmission mechanisms and their impacts on macroeconomic variables, specifically economic growth and inflation.

Besides, it will also cover the formulation of unconventional monetary policy, so called quantitative easing, when interest rates approach the zero-lower bound. Another area of study in this course is the consideration of modern monetary theories, particularly, in the context of real business cycle model and the New Keynesian model.

Course Objectives:

1. To develop knowledge and analytic skill to anticipate the central bank's monetary policy reaction on different economic situations.
2. To enhance capability to make a preliminary analysis of novel monetary policy execution together with its associated impacts and determine the appropriate choice of monetary stance.
3. To encourage students to take an active learning approach by reading lecture notes and participating individual assignment, exercise, in-class discussion and peer-to-peer learning.

Main Text:

The primary textbook will be:

Cecchetti, Stephen and Schoenholtz, Kermit. (2021) **Money, banking, and financial markets**. (6th edition). McGraw-Hill.

Recommended Texts & Materials:

Students are required to read all lecture notes presented through hybrid (onsite and virtual) classroom.

Suggested Readings:

Students should also study other related teaching materials, including case-based or topic-based articles, news clips and central banks' publications, posted on this subject's moodle platform. These following articles are suggested.

Angbazo, L. (1997). Commercial bank net interest margins, default risk, interest-rate risk, and off-balance sheet banking. **Journal of Banking & Finance**, 21(1), 55-87.

Akerlof, G. A. (1970). The Market for" Lemons": Quality Uncertainty and the Market Mechanism. **The Quarterly Journal of Economics**, 84(3), 488-500

Bernanke, B. S. (2010, May). Central bank independence, transparency, and accountability. In **Speech at the Institute for Monetary and Economic Studies International Conference**, Bank of Japan, Tokyo, Japan, May (Vol. 25).

Bernanke, B. S., & Gertler, M. (2001). Should central banks respond to movements in asset prices?. **American Economic Review**, 91(2), 253-257.

Bernanke, B. S., & Mishkin, F. S. (1997). Inflation targeting: a new framework for monetary policy?. **Journal of Economic Perspectives**, 11(2), 97-116.

Calvo, G. A., Leiderman, L., & Reinhart, C. M. (1996). Inflows of Capital to Developing Countries in the 1990s. **Journal of Economic Perspectives**, 10(2), 123-139.

Campbell, J. Y. (1995). Some lessons from the yield curve. **Journal of Economic Perspectives**, 9(3), 129-152.

Christiano, L. J., Eichenbaum, M., & Evans, C. L. (2005). Nominal rigidities and the dynamic effects of a shock to monetary policy. **Journal of Political Economy**, 113(1), 1-45.

Estrella, A., & Mishkin, F. S. (1996). The yield curve as a predictor of US recessions. **Current Issues in Economics and Finance**, 2(7).

Hanson, S. G., Kashyap, A. K., & Stein, J. C. (2011). A macroprudential approach to financial regulation. **Journal of Economic Perspectives**, 25(1), 3-28.

Obstfeld, M., & Rogoff, K. (1995). The mirage of fixed exchange rates. **Journal of Economic Perspectives**, 9(4), 73-96.

Rogoff, K. (2017). Dealing with monetary paralysis at the zero bound. **Journal of Economic Perspectives**, 31(3), 47-66.

Taylor, J. B. (1993). Discretion versus policy rules in practice. In **Carnegie-Rochester conference series on public policy** (Vol. 39, pp. 195-214). North-Holland.

Course Evaluation:

The course will be assessed by active learning approach with a variety of individual learning, including in-class discussion on current economic situation, individual exercise, individual report assignment, mid-term examination, and final examination. Students should also follow the current economic situations which will be brought into discussion via the online classes. Besides, the students are encouraged to utilize

a web-based platform provided by Mc-Graw Hill (<https://connect.mheducation.com>) as additional source of learning. The major materials are lecture note presentations provided on BE-moodle and other related materials posted on moodle platform. The assessment criteria are detailed as follow.

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| 1. Attendance and in-class participation | 10% |
| 2. Individual exercise | 10% |
| 3. Individual essay assignment | 10% |
| 4. Mid-term examination | 30% |
| 5. Final examination | 40% |

Grading Criteria:

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|----|---|----------------|
| A | = | 80 and above |
| B+ | = | 75 - 79.9 |
| B | = | 70 - 74.9 |
| C+ | = | 65 - 69.9 |
| C | = | 60 - 64.9 |
| D+ | = | 55 - 59.9 |
| D | = | 50 - 54.9 |
| F | = | 49.9 and below |

Expected Learning Outcomes:

1. Morality and Ethics

Applicability	Expected Learning Outcomes
●	1.1 Students demonstrate integrity.
●	1.2 Students prioritize social and public benefits over personal ones.
●	1.3 Students are punctual and comply with the code of conduct of the institution and society at large.
●	1.4 Students are responsible and accountable to society, the nation, and the subject of economics.
○	1.5 Students realize the cultural and environmental value of the sustainable society.

2. Knowledge

Applicability	Expected Learning Outcomes
●	2.1 Students know and understand modern economics principles and theories, and are up to date with new developments.

Applicability	Expected Learning Outcomes
●	2.2 Students know and understand Thai and global economic structure, and the importance of major international economic events.
○	2.3 Students know and understand instruments of economic analysis.
●	2.4 Students know and understand applied fields in economics, including monetary, public, international, business, natural resource and environmental, industrial, agricultural, cooperative, political, developmental, and entrepreneurial economics as well as agribusiness.
○	2.5 Students are informed about related fields including sociology, business administration, education, law policy, and science.

3. Intellectual Development

Applicability	Expected Learning Outcomes
●	3.1 Students have developed individual critical thinking.
●	3.2 Students are sufficiently trained in research skills.
●	3.3 Students demonstrate an ability to analyze and synthesize data, as well as appropriately integrate economics concepts to understand causes of current economic problems in Thailand. Based on analysis and synthesis, students demonstrate an ability to propose policy guidelines to resolve problems.

4. Interpersonal Skills and Responsibilities

Applicability	Expected Learning Outcomes
●	4.1 Students are responsible for assigned tasks and work in groups effectively.
●	4.2 Students have problem-solving skills.
○	4.3 Students show leadership skills and team spirit.
●	4.4 Students are always improving themselves.
○	4.5 Students have good interpersonal skills, adapting and working under different conditions.

5. Quantitative Analysis, Communication and Information Technology

Applicability	Expected Learning Outcomes
○	5.1 Students select and apply appropriate statistical and mathematical methods for data processing, interpretation, conclusions, and recommendations to resolve problems.
○	5.2 Students communicate effectively and select appropriate presentation methods.
○	5.3 Students use information and communication technologies appropriately to gather data as well as process, interpret, and present results.

Tentative Class Schedule:

Week	Topic	Date
1.	Financial instruments, financial markets, and financial institutions (Cecchetti & Schoenholtz Textbook Chapter 3)	15 Jan 2022
2.	Understanding risk (Cecchetti & Schoenholtz Textbook Chapter 5)	22 Jan 2022
3.	The risk and term structure of interest rates (Cecchetti & Schoenholtz Textbook Chapter 7)	29 Jan 2022
4.	The economics of financial intermediation (Cecchetti & Schoenholtz Textbook Chapter 11)	5 Feb 2022
5.	Depository institutions: banks and bank management (Cecchetti & Schoenholtz Textbook Chapter 12)	12 Feb 2022
6.	Regulating the financial system (Cecchetti & Schoenholtz Textbook Chapter 14)	19 Feb 2022
7.	Central banks in the world today (Cecchetti & Schoenholtz Textbook Chapter 15) & Mid-term exam revision	26 Feb 2022
	Mid-term examination	5 Mar 2022 9-11 AM
8.	The central bank balance sheet and the money supply process (Cecchetti & Schoenholtz Textbook Chapter 17)	12 Mar 2022
9.	Monetary policy: stabilizing the domestic economy (Cecchetti & Schoenholtz Textbook Chapter 18)	19 Mar 2022

Week	Topic	Date
10.	Exchange rate policy (Cecchetti & Schoenholtz Textbook Chapter 19)	26 Mar 2022
11.	Money growth and money demand (Cecchetti & Schoenholtz Textbook Chapter 20)	2 Apr 2022
12.	Output, inflation, and monetary policy (Cecchetti & Schoenholtz Textbook Chapter 21)	9 Apr 2022
13.	Understanding business cycle fluctuations (Cecchetti & Schoenholtz Textbook Chapter 22)	23 Apr 2022
14.	Modern monetary policy and the challenges (Cecchetti & Schoenholtz Textbook Chapter 23)	30 Apr 2022
15.	Special topic: New Keynesian monetary economics & Final exam revision	7 May 2022
	Final examination	21 May 2022 9.00 – Noon