Course ID Number: DCC5281
Course Title: Monetary Economics and Policy Analysis

No. of Credits: 2

Graduate School of International Relations
International University of Japan

Term: Fall 2011

Instructor: Ching-Yang Lin
E-mail: clin@iuj.ac.jp
Office: 212
Phone: 404

Course Introduction

This class will provide an introduction to modern analysis of stabilization policy within the context of New Keynesian macroeconomic models. Topics over analysis of key issues in monetary theory and policy, including relationships between money, output and prices (for both long-run and short-run); business cycles; inflation targeting. The objective of this class is to equip students with the ability to explore questions based on empirical evidence and conduct research based on a rigorous theory model.

Monetary Economics and Policy Analysis Course

General Information

- Instructor: Ching-Yang Lin

- Office Hours: Monday and Thursday 11:00-12:00

Course Outline

This class will provide an introduction to modern analysis of stabilization policy within the context of New Keynesian macroeconomic models. Topics cover analysis of key issues in monetary theory and policy, including relationships between money, output and prices (for both long-run and short-run); business cycles; inflation targeting. The objective of this class is to equip students with the ability to explore questions based on empirical evidence and conduct research based on a rigorous theory model. The lecture is organized in following manner:

1. Introduction to Monetary Policy and the Empirical Evidence

   (a) The stylized facts regarding monetary policy and other economic activity. (reading list (a))

   (b) The basic concept and technique of time series analysis. (supplement handout)

2. A Classical Model and Monetary Neutrality (Gali Chapter 2)

   (a) Empirical evidence on the classical model and monetary neutrality. (reading list (b))

   (b) Model presentation: A money in utility model.

   (c) Related discussion: Lucas Critique

3. The New Keynesian Model and its Policy Implications (Gali Chapter 3, 4)

   (a) Model presentation, log-linearization, and impulse responses

   (b) Determinacy in the New Keynesian model

   (c) Optimal Monetary Policy and Time Inconsistency

   (d) Historical US Monetary Policy since the 1960s (reading list (c))

Prerequisites

This class will make intensive use of mathematics and statistics. Basic techniques and concepts of calculus are required (e.g. derivatives, integrals, matrices). You may encounter lengthy mathematical derivations. However, focus will be on a few key steps in the derivation of results and, more importantly, the

intuition behind them. You will also be asked to do numerical analysis based on statistics software or computer language (e.g. Fortran, R, Matlab or Eviews). For the computational work, experience is not required, though you should not be afraid of learning.

Grading

There will be two assignments (60%) and one final exam(40%).

1. Assignments: you may work alone or in groups of up to 3. The purpose of these assignments is to help you review the materials in class. In each assignment, you will be asked to solve a model and explain its implication. Some of the problem sets involve computational analysis. The assignments may be challenging, but you are very encouraged to discuss any roadblock you may have with me.

2. You will have a take home final exam. in the end of the semester. You amy have up to 4 days to finish it. You can check all the available references, including notes, books, and internet resources. Discussion with other students are strictly prohibited. You will get "F" for this.

Textbook, Reading Materials and related Resources

1. The class lecture handouts will be the primary sources of information for this course. Consequently, there is no required course textbook although the material will closely follow Jordi Gali's "*Monetary Policy, Inflation, and the Business Cycle*" (Ch 1-Ch 4). In addition to this book, a good supplement reference is: Carl E. Walsh's "*Monetary Theory and Policy*".

2. In the class I will mention and discuss several journal articles. The following reading list contains most of those I will address in this lecture.

   (a) Christiano, Eichenbaum and Evans (1999), Romer and Romer (2004)

   (b) Lucas (1976), Bils and Klenow (2004), Nakamura and Steinson (2008), Christiano, Eichenbaum and Evans (1999), Romer and Romer (2004)

   (c) Clarida, Gali, and Gertler (2000), Orphanides and Athanasios (2003)