ECON 7500: Advanced Monetary Theory

The objective of the course is to provide an in-depth understanding of money and financial institutions and how they function in an advanced capitalist market economy. The course consists of three sub-sections. The first section focuses on why and how money matters, drawing out the analytical issues and problems involved in the conceptualization of its macroeconomic role. In Section II the discussion shifts to the role of financial structure and the macroeconomic effects of various capital market anomalies. This is followed up in greater detail in Section III in connection with the two major historical episodes of financial crisis, the Great Depression of the 1930s and the current global financial crisis.

Course Evaluation is based on two midterm (25% each) and a final exam (30%) and a term paper or project (20%).

Course Outline

I. Money and Macroeconomics
   
i. An Overview and Introduction
   What is money?
   How does it figure in macroeconomic theory?
   Neutrality of Money and Classical Dichotomy
   What was Keynes's innovation?

   Minsky (1974). John Maynard Keynes, Chp 1,2

ii. Different Views of Non-Neutrality of Money
   Reconciling Quantity Equation of Money with Keynes
   Sticky wages
   Liquidity Preference
   Endogenous Money Tradition
   Asset Mispricing?


II. Financial Macroeconomics

i. Financial Cycles and Procyclical Credit Supply
   What causes financial fragility?
   What has Changed Since Minsky?
   Asset Price Bubbles and Procyclical Credit


**ii. Financial Accelerator**

- Procyclical Credit and Agency Cost
- New Financial Accelerator


**III. Financial Crisis**

**i. The Great Depression**

- Great Depression, Reassessed
- Credit Boom Gone Bust
- Breakdown of Global Intermediation


ii. Financial Deregulation and Shadow Banking
    Financial regulation, what is it supposed to do?
    Financial deregulation, causes and drivers
    Financial Intermediation, transformed


iii. Current Global Financial Crisis
    How and why did it happen?
    Global Intermediation and its fault lines
    Liquidity vs insolvency?


iv. Financial Globalization and Open Economy Macroeconomics

*Global Imbalances – Europe and US - China*

Current Account vs Capital Account Based Adjustment


Hallwood, C. & R. MacDonald - *International Money and Finance* – Chps. 5 – 9

Keynes *A Treatise on Money* – Chps. 21,31,34,35, 38
