

Department of Economics
Duke University

Professors Stephanie Schmitt-Grohé and Martín Uribe
Teaching Assistant: Sarah Zubairy

Economics 153
Monetary Economics
Fall 2006

Meetings: Wednesdays 10:05am-12:35pm in Carr 135.

Course website: www.econ.duke.edu/~grohe/teaching.html

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Office Hours:

Professor Schmitt-Grohé: Tuesdays 10am-Noon, SocSci 221A.

Professor Uribe: Tuesdays 10am-Noon, SocSci 221.

TA Zubairy: Tuesdays 1:30pm-2:30pm, SocSci 02D.

Prerequisites: Economics 105D and Economics 110D.

Requirements: The final grade will be based on written assignments (20%), a midterm exam (35%), and a cumulative final exam (45%).

Midterm Exam: Wednesday, October 18, 2006, in class.

Final Exam: Tuesday, December 12, 2006, 7:00pm - 10:00pm.

Course description: Economics 153 is a field course in Monetary Economics. The course develops a number of theoretical frameworks for the analysis of the determinants of the price level and the rate of inflation, including ones in which monetary disturbances have real effects, that is, ones in which money can be nonneutral. The theoretical frameworks are then used as the basis for the discussion of the relationship between money growth and inflation, monetary stabilization policy, exchange rate policy, and the interaction between monetary and fiscal policy.

Texts: The text for the course is Bruce Champ and Scott Freeman, Modeling Monetary Economics, Second Edition, Cambridge University Press, 2001. The other material listed on the syllabus will be available on e-reserve.

Outline of the material to be covered in class:

1. **The Neutrality of Money**
The Quantity Theory of Money
The Cagan Model of Money Demand
Lucas, “Nobel Lecture: Monetary Neutrality”
2. **Fiscal Policy and Inflation Stabilization**
Sargent, ‘The Ends of Four Big Inflations.’
Sargent and Wallace, ‘Some Unpleasant Monetary Arithmetic.’
3. **An Overlapping Generations Model of Money**
Champ and Freeman, Chapter 1.
4. **Barter and Commodity Money**
Champ and Freeman, Chapter 2.
5. **A Theory of Inflation**
Champ and Freeman, Chapter 3.
6. **Real Effects of Monetary Instability**
Champ and Freeman, Chapter 5.
Clarida, Galí, Gertler, ”The Science of Monetary Policy,” sections 1-2.
7. **Monetary Policy**
Clarida, Galí, Gertler, ”The Science of Monetary Policy,” sections 3-4.
Taylor, ”A Historical Analysis of Monetary Policy Rules.”
8. **Nominal Exchange Rate Determination**
Schmitt-Grohé and Uribe, Lecture notes on *International Macroeconomics*, Chapter 10.
Champ and Freeman, Chapter 4.
9. **Money and Financial Intermediation**
Champ and Freeman, Chapters 6-7.
10. **Central Banking and the Money Supply**
Champ and Freeman, Chapters 8-9.
11. **Bank Runs**
Champ and Freeman, Chapter 12.
12. **Inflation, Fiscal Deficits, and Default**
Champ and Freeman, Chapters 13-16.