

*Masaryk University*

**Monetary Economics**

Instructor: Mark Tomass, Ph.D.  
Syllabus

<b>Office</b>	Room 613
<b>Office Hours</b>	By appointment
<b>Email</b>	tomass@fas.harvard.edu

***Course Objectives***

This course is designed for those who have some background in macroeconomics and a basic understanding of mathematics. The course is divided into four parts: The first part is reading material intended to familiarize you with the financial markets' side of the monetary system; the second part examines the determination of interest rates and exchange rates and investigates the link between domestic monetary policy and international capital movements; the third part focuses on the money supply process and the Central Bank's monetary policy regarding the creation of money and the control of credit; finally, the fourth part lays the foundations for monetary theory, which examines the role of money and financial markets in the determination of output, employment, and prices.

A successful completion of this course enables you to understand why economies around the world experience short term business cycles. If your enterprise's sales are susceptible to the fluctuations of the economy, then you must watch economic indicators in order to maximize your profits or minimize your losses. Understanding the forces that trigger business cycles helps you to predict the macroeconomic conditions that will impose themselves on your firm in the months and years to come. Understanding business cycles, prepares you to guard against unwise strategies that determine the scale of your operations. You will learn what kind of relevant indicators to look for when you design the profit maximizing or loss minimizing strategies of your firm's domestic or international operations in the immediate future. Furthermore, by understanding the forces behind potential long term growth of economies, you will make the correct assessment of the adequate long term expansionist strategy that your firm should pursue in various alternative locations. Thus, a correct understanding of the forces governing the economy will enable you to navigate with clear thinking into the complex economic relationships that shape our constantly changing world.

**Required Text, Readings:**

1. Frederic Mishkin. *The Economics of Money, Banking, and Financial Markets*. Addison Wesley, International Edition 2006. (available at the library desk). Later or earlier editions are acceptable.
2. A Summary of lecture notes can be downloaded from the Information System.

<b>Content of the Course</b>
------------------------------

***Part I. Money, Financial Instruments, and Financial Markets***

This part is intended as background material for the course. It is your responsibility to read the assigned chapters to become familiar with financial markets and instruments. The first lecture will nevertheless, briefly review them.

**a. Money**

1. What is money?
2. What are the functions of money?
3. What are the measurements of money?

**Text:** Chapters 1 & 3.

**b. Financial Markets**

1. What is the role of the financial system in the economy?
2. What is meant by financial innovations?
3. What is the role of financial regulation?
4. What are the instruments of the money market?
5. What are the instruments of the capital market?
6. What is the difference between primary markets and secondary markets?

**Text:** Chapter 2.

**c. The Credit Market**

1. What are the instruments of the credit market?
2. The concept of the present value.
3. Explaining the relationship between bond yields and bond prices.
4. What is the difference between interest rates and rates of return?
5. What is the difference between nominal and real interest rates?

**Text:** Chapter 4

***Part II. The determinants of interest rates, exchange rates, and the international flows of goods and capital***

**a. Interest Rates**

1. How are interest rates determined in a closed economy?

**Text:** Chapter 5

**Homework # 1.**

**b. Interest Rates and Exchange Rates**

1. What is the relationship between interest rates, international capital flows, exchange rates, and the balance of payments?
2. The long-run determinants of exchange rates.
3. The short-run determinants of exchange rates.

**Text:** Chapter 19 and Lecture notes

***Part III. The Central Bank and the money supply process***

1. How does the Central Bank manipulate the money supply?

2. How do banks affect the money supply?
3. The role of the money multiplier in changing the money supply.
4. How does the government finance its debt and its impact on the money supply.

**Text:** Chapters 15, 16, & 17.

**Homework # 2.**

**Homework # 3.**

***Part IV. Exchange rate regimes and international monetary policy.***

**Text:** Chapter 20 & Lecture notes.

***Part V. The relationship between the supply and demand for money and the levels of output employment and prices***

**a. Review of Macroeconomic Concepts**

**b. Determinants of the Demand for Money.**

**Text:** Chapter 22.

**c. Demand-Side Analysis of the Money and Goods Markets**

1. Constructing a model for the goods market (the IS curve).
2. Constructing a model for the money market (the LM curve).
3. Deriving the aggregate demand curve from the ISLM framework.

**Text:** Chapters 23, 24, and lecture notes

**Homework # 4.**

**d. Supply and Demand Analysis of the Goods Market.**

1. The use of aggregate supply and aggregate demand analysis to understand the forces behind the business cycle.
2. Explaining policy implications.

**Text:** Chapter 25 and lecture notes.

**Homework # 5.**

***General Course Policies and Rules***

***Course Requirements***

**Final Exam:** The Final exam constitutes 100% of your grade. It is 90 minutes long. It is in multiple choice form. The questions are based on material covered in the text, handouts, or lectures. They are based on these materials, but they are not identical to them. Exam questions do not ask you to reproduce the same information that you find in these materials. They ask you to analyze situations with a method derived from the material that you discussed in class or which are covered in the text. Therefore, do not be surprised if I ask you to respond to a question that is not illustrated in the text or in the handouts.

<b>First Attempt:</b>	<b>November 2</b>
<b>Second Attempt:</b>	<b>November 4</b>
<b>Third Attempt:</b>	<b>To be announced</b>

### *Grading Scale*

<b>Letter Grade</b>	<b>Percent (%)</b>	<b>Generally Accepted Meaning</b>
A	91-100	Outstanding work
B	81-90	Good work, distinctly above average
C	71-80	Acceptable work
D	66-70	Below average work
E	60-65	Minimum standard work
F	0-59	Work that does not meet minimum standards for passing the course

**Class Participation:** This class is interactive. To insure your understanding of the materials, you should try to answer questions I pose in class. It is better to make a mistake in class discussion than in an exam.

**Talking in class:** Talking with your colleagues in class distracts me and distracts your colleagues. Therefore, it is absolutely necessary that you control yourself and curb your impulse to chat with your colleagues in class. If you have difficulties with controlling yourself, please do not attend class.

**Tardiness or leaving the class early:** Try to arrive in class five minutes before it starts in order to review your latest notes and get ready for the new material. Late arrivals are distracting to me and to your fellow students. If you have a good reason to leave the class before it ends, let me know before the class starts and sit next to the nearest exit so that you cause a minimum distraction.

**Etiquette of Grade Disputing:** I encourage you to discuss your performance in any exam. This is done in my office during the designated office hours or by setting up an appointment with me if my office hours do not suit you. If you have a concern to debate with me, please do it in my office. You are also welcome to review your exam with me even if you have no desire to dispute your grade.

### *Some obvious notes on maximizing your learning potentials in this course*

Economics is a science that applies deductive logic to facts to help you make efficient decision. Its complexity arises from the syntheses of many simple laws that operate simultaneously. Your success in this course depends on your ability to synthesize these laws correctly and on your familiarity with the definitions of the terms used to describe the relevant facts. I suggest that you read the section below to maximize your learning experience:

**First:** Read each assigned chapter before you come to class and highlight the concepts, phrases, and ideas that you had difficulties in comprehending. This is a very important part of your preparation for the course because attending class will not substitute for reading the

textbook. You need to work on the material independently to become familiar with economic logic.

**Second:** participate in class discussion. Do not hesitate to ask about the definition of terms I use in my presentations. Key definitions are crucial to comprehending the material. Be certain to identify any possible weaknesses you may have towards any topic.

**Third:** concentrate on my presentation while you are in the class. Referring back and forth to the textbook may be a confusing process. After class, get back to those issues which you highlighted and see if you now have a better understanding of them. If you still have difficulties with them make sure that you ask me to clarify whatever you are unclear about in the next class. If you feel uncomfortable about asking questions in class, feel free to consult me after the class is over.

**Fourth:** the lectures are interdependent and will gradually become more complex. Therefore, if you do not deal with any difficulties promptly, you will fall behind the class and feel confused as the rest of the class progresses. Do not wait for the last class meeting to ask for help. It may then be too late. Always remember that my cooperation will improve your performance only if you are willing to work hard independently.