

Economics 422
Monetary Economics
Fall 2015
Gerald P. Dwyer

Class is from 1:00PM-2:15 PM Monday and Wednesday. Office hours are Monday and Wednesday from roughly 9:00 to 11:00 AM. Appointments always can be made; I'm just not promising to be available at other times without an appointment. My email address is gdwyer@clemsun.edu and the phone number is 864-656-3481.

GENERAL

A major purpose of this course is to provide you with knowledge and analytical skills related to financial markets, banking and monetary policy. These topics are ignored in most other Economics courses beyond Principles. The course will emphasize financial markets in terms of time but the recent financial crisis in the United States makes all three topics very pertinent.

The course has more similarity to a readings course on selected topics than a course in which you make your way through a textbook. The topics covered are 1. Stock and bond markets; 2. The Federal Reserve and monetary policy; 3. Financial crises; and 4. Digital currency.

After taking this course, you should have a working knowledge of financial markets, with some background about factors affecting stock prices and interest rates. You also should have a working knowledge of how monetary policy is conducted. The recent financial crisis provides a nice backdrop for examining how financial markets, banking and monetary policy are related. As a result, after this course, you should be able to discuss how stock and bond prices are determined in an intellectually coherent way and to use that knowledge to assess stock and bond prices and to understand the limits of such assessments. Ditto monetary policy. You also will have some understanding of the Financial Crisis of 2007-2008 in the United States and the ensuing financial crisis most evident in Europe. We also will discuss cryptocurrencies (often called "digital currency" or "virtual currency") and most prominently represented by Bitcoin), how it works and its possible implications.

The content of lectures and class time is not fixed and the content of classes will be dependent on questions you ask. Slides generally will be available only shortly before class because I will be working on them.

READING MATERIAL

There is a regular text which we will use for part of the course. In addition, we will go through articles and books on financial and monetary topics. (The cost to you of the books and articles is substantially less than one money-and-banking textbook, and I think much more interesting and informative.)

REQUIRED BOOKS

Investments, Second edition
By Keith Cuthbertson and Dirk Nitzsche

This is a solid general book on investments. We will go through the institutional material in the book and some of the analytical material on stock markets and bond markets. It would be easy to spend the whole semester on this book but we will do other things.

A Random Walk Down Wall Street, Tenth or Eleventh Edition

By Burton Malkiel

As its "tenth edition" and "eleventh edition" indicate, this book has been revised many times to keep it up to date. It is a good read with some great stories and it is current. These editions includes discussion of the Financial Crisis of 2007-2008 in the United States.

The Great Contraction, 1929-1933

By Milton Friedman and Anna J. Schwartz

This is the classic analysis of the banking crisis from 1929 to 1933. There is a new edition which came out in 2008 and differs from the original edition only by the addition of a new preface and introduction and concluding comments by Ben Bernanke. The new edition is \$22 at Amazon but the earlier edition is fine if you can get a cheap copy of that. This book is a chapter from A Monetary History of the United States, 1867-1960, so a copy of A Monetary History completely substitutes for The Great Contraction.

BOOKS AND OTHER MATERIAL PROVIDED

The Federal Reserve System: Purposes and Functions, 2005 edition

By Board of Governors of the Federal Reserve System

This book is the classic description of the Federal Reserve. Obviously the evaluations of the Federal Reserve's performance are uniformly positive, but it does describe the Federal Reserve quite well. Some things have changed since the financial crisis, but the most important changes will be introduced in class. This book is available for download at <http://www.federalreserve.gov/pf/pf.htm> and will be available on the course website.

Modern Money Mechanics

By Federal Reserve Bank of Chicago

This pamphlet goes through the basic multiple expansion of deposits and I can go through any additional detail in class. This pamphlet is available at various places on the Internet and will be available on the course website.

The Financial Crisis of 2007-2008 in Fixed-income Markets

By Gerald P. Dwyer and Paula Tkac

The Financial Crisis of 2007-2008 appeared most directly in fixed-income markets. This paper is a summary of the developments and an analysis of the role of subprime mortgages and related securities in the developments. It will be provided on the course website.

What Caused the Financial Crisis and What Can Be Done About It?

The causes and remedies for the financial crisis are very controversial. I have selected two works which represent different points of view. Selected chapters from each will be assigned. We could spend a whole semester examining evidence on these issues. Instead, the books are works intended for a popular audience with no technical details and little supporting evidence provided in the works themselves. In this way, you can at least become familiar with some informed opinions about these issues.

The Financial Crisis and the Free Market Cure by John Allison represents one point of view on causes and remedies, with the viewpoint represented in the title.

Financial Turmoil by George Soros is a short book based on op-ed pieces for newspapers. It represents a point of view in which the government can play a positive role.

The selected chapters will be available on the course website.

The Rise and Fall of Bitcoin

By Benjamin Wallace

It is not obvious that the current monetary regime is the best of all possible monetary regimes. It may not even be particularly good. One set of alternatives consists of digital, also called “virtual”, currencies. I will provide this Wired article on Bitcoin and maybe some additional popular material on digital currencies.

Private Digital Currencies, Cryptocurrencies and Bitcoin

By Gerald P. Dwyer and Norbert J. Michel

This is a Heritage Backgrounder paper which will be published sometime this Fall barring unforeseen developments. It pays more attention to regulatory issues than many available summaries. It also pays less attention to “mining” because regulation of that activity is less important than other aspects of cryptocurrencies.

The Economics of Bitcoin and Similar Private Digital Currencies

By Gerald P. Dwyer

This is a research paper which you will find useful to scan. It will be available on the course website.

ADDITIONAL READING

You might find two additional recent books on the Federal Reserve interesting.

The Federal Reserve: What Everyone Needs to Know

By Stephen H. Axelrod

This short book is a summary by an insider at the Board of Governors of the Federal Reserve System. It is less detailed than Purposes and Functions but more current, with some judgments about Federal Reserve actions provided along the way. The judgments generally are positive.

End the Fed

By Ron Paul

As the title indicates, this is a summary of arguments that the Federal Reserve has been a failure with the conclusion that the Federal Reserve should be abolished.

HOMEWORK

Like all other aspects of Economics, you cannot learn monetary economics by memorizing or just reading. You can master the material only if you think through issues yourself. Writing is an excellent way to think through the issues and working through algebra and numerical examples is a good way to be sure you understand the material.

There will be a couple of homework assignments. When homework is assigned, you will be expected to hand it in at the start of class on Wednesday of the following week. The homework assignments will be questions that require some analysis and computation. I encourage you to collaborate on doing the homework, but you must hand in your own rendition of the answer. The homework will be graded. The grading scale will be: A for at least a solid attempt showing substantial knowledge of the material; B for a serious attempt at answering the question; C for a perfunctory answer; and F for none at all. I will not decrease your grade for poor English unless your assignment has very poor grammar or is extremely poorly written to the point that I cannot understand it. No credit will be given for late material except in the event of a university-approved absence.

TESTS

There will be two midterms and one final. The final will be comprehensive. **The midterms will be on Wednesday, September 23 and Monday, October 26. The final will be a take-home exam due on Monday, December 7.** I expect that you will work on the take-home final exam with others but you must write up your own answers to the questions. The take-home exam will be available on November 30.

GRADES

Your grade will be based on the exams and the homework. The homework will be one-eighth of your grade. The two midterms will be one-half of your grade. The final will be three-eighths of your grade.

ATTENDANCE POLICY

I will not monitor your attendance. It is hard to see how you will do well in this class if you miss many classes.

ACADEMIC INTEGRITY

It is written: "As members of the Clemson University community, we have inherited Thomas Green Clemson's vision of this institution as a 'high seminary of learning.' Fundamental to this vision is a mutual commitment to truthfulness, honor, and responsibility, without which we cannot earn the trust and respect of others. Furthermore, we recognize that academic dishonesty detracts from the value of a Clemson degree. Therefore, we shall not tolerate lying, cheating, or stealing in any form."

STUDENTS WITH DISABILITIES

Students with disabilities requesting accommodations should make an appointment with Dr. Margaret Camp (656-6848), Director of Disability Services, to discuss specific needs within the first month of classes. Students should present a Faculty Accommodation Letter from Student Disability Services when they meet with instructors. Accommodations are not retroactive and new Faculty Accommodation Letters must be presented each semester.

SEXUAL HARASSMENT

Clemson University is committed to a policy of equal opportunity for all persons and does not discriminate on the basis of race, color, religion, sex, sexual orientation, gender, pregnancy, national origin, age, disability, veteran's status, genetic information or protected activity (e.g., opposition to prohibited discrimination or participation in any complaint process, etc.) in employment, educational programs and activities, admissions and financial aid. This includes a prohibition against sexual harassment and sexual violence as mandated by Title IX of the Education Amendments of 1972. This policy is located at <http://www.clemson.edu/campus-life/campus-services/access/title-ix/>. Mr. Jerry Knighton is the Clemson University Title IX Coordinator. He also is the Director of Access and Equity. His office is located at 111 Holtzendorff Hall, 864-656-3181 (voice) or 864-565-0899 (TDD).

READING LIST

You are expected to have at least read over the material for each class *before* class and I will assume that you have done so. I will clarify less obvious points or talk about related issues, not provide a running summary of the readings.

As the course evolves, I will indicate selected material in the reading which is less important and can be skimmed.

The dates for covering material are only indicative.

The dates of the midterms will not change even if the material covered is more or less than indicated. The dates with “No class” will not change because they are due to research in Spain, a conference in Italy and a tutorial I will give on Bitcoin at a conference

Date	Topic	Readings
August 19, 24	Financial Markets	Cuthbertson and Nitzsche, Chs. 1-5
August 26, 31	Stocks and Their Value	Malkiel, Part 1
September 2, 7	Fundamental Analysis Technical Analysis Random Walk	Malkiel, Part 2
September 9	Risk and Return	Malkiel, Part 3
September 14	Present Value	Cuthbertson and Nitzsche, Ch. 6
September 16	Cost of Capital	Cuthbertson and Nitzsche, Ch. 7
September 21	Measuring Asset Returns	Cuthbertson and Nitzsche, Ch. 9
September 23	First mid-term	
September 28, 30	Portfolio Theory	Cuthbertson and Nitzsche, Chs. 10-13
October 5 and 7	No class	
October 12	Fall break	
October 14	No class	
October 19	Portfolio Theory	Cuthbertson and Nitzsche, Chs. 10-13
October 21	Bond Markets	Cuthbertson and Nitzsche, Chs. 19-22
October 26	Second midterm exam	
October 28	The Federal Reserve	Purposes and Functions
November 2	Multiple Expansion of Deposits and Bank Runs and Bank Reserves Today	Modern Money Mechanics Slides
November 4	The Financial Crisis of 2007-2008	Dwyer and Tkac Slides

November 9	The Sovereign Debt Crisis of 2008-201?	Slides
November 11	Causes and Remedies for The Financial Crisis of 2007-2008	Allison and Soros, selected chapters
November 16, 18	The Great Depression	Friedman and Schwartz
November 23	Cryptocurrencies and the Blockchain	Wallace article in Wired Dwyer and Michel Dwyer Slides
November 26	Thanksgiving	
November 30	Cryptocurrencies and the Blockchain Final exam handed out	
December 2	No class	
December 7	Final Exam due	
