COURSE AND CONTACT INFORMATION
Course: ECON 6295 Modern Macro-Money
Section 14 (CRN 57978)
Semester: Spring 2017
Time: W 6:10 - 8:40
Location BELL 309

INSTRUCTOR
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COURSE DESCRIPTION
This course in macroeconomics and monetary economics provides the applied economics student an opportunity to think about the evolving role of monetary policy and the central bank’s evolving tool kit which has recently included larger balance sheets, negative interest rates, asset transformations and, changes in reserve policies in support of both stable macroeconomic growth and a commensurate macroprudential evolution of a financial system. Emphasis will be on facilitation of finance over the short- and medium-term. Conditional on the use of these tools, consideration will be given to modern tools for long term dynamic stability and associated positive and negative implications for capital and growth impacts.

PREREQUISITES
Students must have successfully completed their Masters level Applied Micro (ECON 6301) and Applied Macro (ECON 6305) course work along with at least one Masters level Econometrics course, e.g., ECON 6375. These courses form the core from which we will work and will provoke our thinking on communication of analytic ideas in economics.

TEXTS
There is no primary text for this class except for those you employed in your core courses.
Required texts and resources:

- Bagehot, Walter (1873) *Lombard Street – A description of the Money Market.*
- Geithner, Timothy (2014) *Stress Test*
- Woodridge, Jeffrey (2014) *Introductory Econometrics: A Modern Approach (you should already have this)*
- Jones, Charles *Macroeconomics 2nd Edition (you should already have this)*

Additional Serial Reading Materials: You are strongly encouraged to subscribe to the *New York Times, Wall Street Journal* and, the *Washington Post.* Monetary Policy, Global Economic Growth and, Public Finance are very much in the news these days, we will be engaging the media as a context for learning and applying the ideas in this course.

Other Readings: I will assign other readings over the semester; there will be no financial cost for these readings. I assign readings designed to engage course topics some will be refereed journal articles, others will be technical papers focused on the implementation of programs. Any assigned reading posed a week or more ahead of the class in which it is discussed IS REQUIRED. Often these will take the form of a Electronically Distributed Reading (EDR). Any reading posted less than a week before class, or following a class, is not required, it is simply there to add insight.

COURSE OBJECTIVES
Students will gain an understanding of the motivations for employing the modern expanded tool kit of a central bank along with limitations – both historically and, at present. Beginning from Bagehot we will consider a central bank’s limited but important opportunities for intervention, and develop tools for the analysis of interventions. The student will also gain an appreciation for maturity transformation, asset class transformations and interest rate targeting. The central bank’s policy options will be placed in the context of both private markets and public finance, as part of the broader context – political economy.

AVERAGE MINIMUM AMOUNT OF INDEPENDENT, OUT-OF-CLASS, LEARNING EXPECTED PER WEEK
In a 15 week semester, including exam week, students are expected to spend a minimum of 100 minutes of out-of-class work for every 50 minutes of direct instruction, for a minimum total of 2.5 hours a week. A 3-credit course should include 2.5 hours of direct instruction and a minimum of 5 hours of independent learning or 7.5 hours per week.

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1 I estimate you will spend about $60 for all the texts in this course as I make use of books you should already have. I believe that you are likely to value owning these books, well into the future.
ASSIGNMENTS: You may work together any time you choose. I will assign groups for group assignments in which you will face a central banking scenario where the central bank must act. You will develop a policy proposal, an associated implementation strategy – covering the full period: from program announcement to exit, and be prepared to present it. Assignments are due in printed form, in class, if you cannot attend; please have a fellow student hand in your work. I’m not going to be able to take late assignments because the class meets rather infrequently and by the next class, we will have moved on. There will be three assignments; your lowest assignment grade will be dropped. The point of this system is to encourage you to explore the intellectual space of the course, and to take risks. To that end the broader grading design is as follows:

GRADING:
• class participation will be worth 10% of your grade.
• problem sets will be worth 10% of your grade in this course,
• two related group projects will be worth 20% of your grade
• an optional midterm will be worth 20%
• a comprehensive final will comprise 40% - 60% of your grade

There will be no make-up exams. The midterm is optional. In the case that you hand in the midterm the final will be worth 40 percent of your grade, otherwise the final will be worth 60 percent of your grade. Failure to take the final exam at the scheduled time will result in a grade of zero for the final. The final is cumulative.

CLASS POLICIES
Class Attendance: Our class is public forum, and in this sense, a “public good.” You are expected to contribute to the public good. To come to class prepared and able to contribute—you will be engaged. Increasingly students wish to preview the instructor’s notes for the day. I ask instead that you engage the readings and the press – especially the newspapers listed above. There is time to look at my brief notes during class and thereafter.

UNIVERSITY POLICY ON RELIGIOUS HOLIDAYS
1. Students should notify faculty during the first week of the semester of their intention to be absent from class on their day(s) of religious observance;
2. Faculty should extend to these students the courtesy of absence without penalty on such occasions, including permission to make up examinations;
3. Faculty who intend to observe a religious holiday should arrange at the beginning of the semester to reschedule missed classes or to make other provisions for their course-related activities.

For GW’s teaching policies, see http://www.gwu.edu/~academic/Teaching/main.htm

ACADEMIC INTEGRITY
I personally support the GW Code of Academic Integrity. It states: “Academic dishonesty is defined as cheating of any kind, including misrepresenting one's own work, submitting
the work of others in whole or part without crediting them and without appropriate authorization, and the fabrication of information.” Please note that allowing another student to copy your work is defined as cheating under the Academic Integrity code. Examples of academically dishonest behavior include, but are not limited to:

1) Cheating
2) Fabrication
3) Plagiarism
4) Falsification and forgery of University academic documents
5) Facilitating academic dishonesty

Sanctions range from failure of the assignment, to failure of the course, to suspension or expulsion from the University. For the remainder of the code, see:  http://www.gwu.edu/~ntegrity/code.html

SUPPORT FOR STUDENTS OUTSIDE THE CLASSROOM
DISABILITY SUPPORT SERVICES (DSS) 202-994-8250 Marvin Center, Suite 242
Any student who may need an accommodation based on the potential impact of a disability should contact DSS, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: http://gwired.gwu.edu/dss/

Students must make arrangements with DSS well in advance of use of the service.

UNIVERSITY COUNSELING CENTER (UCC) 202-994-5300
The University Counseling Center (UCC) offers 24/7 assistance and referral to address students' personal, social, career, and study skills problems. Services for students include:

- crisis and emergency mental health consultations
- confidential assessment, counseling services, and referrals

http://gwired.gwu.edu/counsel/CounselingServices/AcademicSupportServices

SECURITY
In the case of an emergency, if at all possible, the class should shelter in place. If the building that the class is in is affected, follow the evacuation procedures for the building. After evacuation, seek shelter at a predetermined rendezvous location.
GENERAL COURSE OUTLINE:

Week 1: Initial Class Meeting – macro review - emphasizing money

Theme: Introduction

Readings:
• seriously review your ISLM model from the Jones text
• (good idea): Start reading Bhaegot and Ahamed)

Outline:
Discussion on course and pedagogy
ISLM emphasis on LM side of the model and feedback.
Exercise: decomposition of recent gas and brake policies of US central bank

Deliverables
  o Student groups assigned
  o assignment g1 handed out (group assignment)
  o assignment 1 handed out (first assignment due)

Week 2: The beginning of the modern era

Theme: International monetary policies from the first international era 1870’s - 1920’s

Readings: (Heads up! -- this is a heavy lift this week!!!)
• Bhaeghot Lombard Street – chapters 1 - 7
• Ahamed, Lords of Finance – chapters 1 - 13
Movie: (optional) viewing of Disc One of Commanding Heights, WGBH Boston - PBS: http://www.pbs.org/wgbh/commandingheights/

Outline:
Ahmed – early period – through 1925. Who are these central bankers? What are their motives? Are their policy coordination exercises “successes ?”

Week 3: The end of the beginning of the modern era

Theme: When liquidity failed: Main Street impacts of CB policies in the late 20’s & 30’s

Readings: (Heads up! -- this is another heavy lift this week!!!)
• Ahmed second half of the book. Chapter 13 - conclusion
• EDR: Bernanke (1983) Non-Monetary Effects ... Propagation of the Great Depression (AER)
• EDR: Mitchener & Richardson (2016) “Contagion & Interbank Amplification (NBER WP)”

Outline:
Mechanisms for liquidity failure
CB policies that might arrest these
What makes France special, limits to specialness? Correlations to the current global recovery, US, China, Japan, all three vs. the BRIC countries

Deliverables
  o assignment 1 due
  o assignment 2 handed out

Week 4: Placing the last three weeks in perspective

Theme: this time, last time, the time before that, time yet to come – pattern & differences

Readings:
• EDR: Gale and Allen: Understanding Financial Crises -- chapters 1-2
• EDR: Reinhart and Rogoff 29009 This Time is Different -- chapters 1-2
• Geithner, Timothy (2014) Stress Test -- chapters 1-3
• EDR Gorton and Metrick (2012), “Getting up to Speed on the Financial Crisis” JEL
• EDR: Stewart (2009) “Eight Days: The battle to save the American financial system”
Movie: (optional) “Too Big to Fail” HBO http://www.hbo.com/movies/too-big-to-fail

Outline:
• The Bankers Problem and liquidity transformation
• Remedy and panic - calls on loans. cyclicity of credit, cyclicity of revolving credit
• How bubbles form, general procedures in their aftermath.

Deliverables--
  o assignment 1 returned
  o midterm review problems handed out

Week 5: The Central Bank (CB) balance sheet

Theme: balance sheets, how CB balance sheets differ, what they hold, why they hold it.

Readings:
• EDR: Carpenter et al (2013)” The Federal Reserve’s Balance Sheet and Earnings”
• EDR: Pattipeilohy (2016) “…Developments in Central Bank Balance Sheet Composition”
Further optional reading from the same BIS volume: http://www.bis.org/publ/bppdf/bispap66.htm

- EDR: Bech and Malkhozov (2016) “How have central banks implemented negative interest rates?” http://www.bis.org/publ/qtrpdf/r_qt1603e.htm

Outline:
- Growth in Asian balance sheets following the ‘97 crisis
- Growth in the Swiss and Japanese balance sheets – similarities, differences.
- Negative interest rates in the context of the Swiss and Japanese balance sheets.
- Two phases in the evolution of the US balance sheet following the financial crisis.

Deliverables—
  - assignment 2 due

**Week 6:** Open Market Operations

**Theme:** the implementation of monetary policy

**Readings:**
- EDR: select reading on the Repo market – TBD

Outline:
- Targeting the fed funds rate, The Taylor rule,
- More recent innovations and perspectives on monetary policy.
- The Repo market
- Securitization and leverage.

Deliverables—
  - midterm review – suggested answers distributed

**Week 7:** Alphabet Soup

**Theme:** we will discuss specific FRS programs over 2007 – to present.

**Readings:**

Outline:
• A review of US central bank programs injecting liquidity into the financial system
• Problem assessment, program design and program assessment
• Bahegot revisited

Week 8: M I D T E R M

Week 9: Putting the Macro back in Macro-Money

Theme – revisiting liquidity, capital, savings and growth in the economy

Readings:
• Solow (1953) “A Contribution to the Theory of Economic Growth”
• Hall (2011) “The Long Slump”
• Caruna (2014) “Global Economic and Financial Challenges – a Tale of Two Views”

Outline:
• How do savings and investment matter for economic growth
• Can we consider factors in Solow’s model and issues brought up in these other readings in one parsimonious place – such as the ISLM model from week 1.

Deliverables
  o midterm returned
  o assignment 3 handed out.

Week 10: Quantitative Tightening? Exit Strategies…

Theme: what do exit strategies look like – how feasible/desirable are they?

Readings:
• EDR: Bullard (2011) “Seven Faces of the Peril”
• EDR: Santor & Suchanek (2013) “Unconventional Monetary Policies”
• EDR: Turner (2104) “The Exit… Challenges”

Outline:
• Taylor rules, deflation and the Zero Lower Bound
• Estimating the Taylor Rule
• Possible Implications of large balance sheets and low interest rates for growth
• ISLM exercise (Week 1) revisited

Deliverables
  o assignment 3 due.
  o assignment 4 handed out.

**Week 11:** Big Balance Sheet Central Banking?

*Theme: In Lieu of Exit – what policies exist going forward – we explore.*

**Readings:**
  • EDR: Barro & Gordon (1983) “A Positive Theory of Monetary Policy in a Natural Rate Model”
  • EDR: Buiter (2008) “Can Central Banks Go Broke?”
  • EDR: Hrung & Seligman (WP) Central Bank Portfolio Adjustments: Substitutes to Expansions?

**Outline:**
  • What is a large balance sheet, are their natural limits to size?
  • Implications of a limit for market facilitation and policy implementation
  • Reserve Neutral Policies
  • Liquidity Absorption in lieu of exit – implications for growth?

**Week 12:** Time dedicated to work with your groups on presentations

*Theme: each group should already have built substantive analysis components.*

This week you meet independently to assemble those and to prepare to advocate for policies to address the scenario you’ve been dealt. You may want to use some time to anticipate the critique assignment as well. Please recall from earlier in this syllabus that you are to develop a policy proposal, and an associated implementation strategy – covering the full period: from program announcement to exit.

**Week 13:** Group Presentations

*Theme: You will present your policy proposal.*
*While your group presents all others will take notes.*
*One will be chosen to lead a critique.*

**Deliverables**
  o assignment g1 due
  o critique group assigned assignment g2 (critique) distributed
Week 14: Discussion of Group Presentations

Theme: as well as proposing a policy in the context of a scenario you must be able to consider its merit.

Your group will lead in the evaluation of one other’s specific intervention proposal – you are required to be objective and constructive. You should consider announcement, implementation and exit components in terms of efficacy and future precedent. You should also consider the proposal in the context of other programs.

Your group will also comment on all other groups policy proposals following the lead groups critique

Deliverables
- critique group assigned assignment g2 (critique) due
  (bring 2 copies, one for me, one for the group you’ve been assigned to.)
- g1 returned
- Final review problems handed out.

Week 15: Summary and Final Review

Theme: We’ve covered a lot of ground. This is an opportunity to bring together all the themes, consider the road forward and address student questions.

Deliverables
- g2 returned
- final review suggested answers posted