



General Course Information

Instructor: Mei Li

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Office Location MacKinnon 745
Office Hours Mondays and Wednesdays, 2:30PM – 3:30PM
Department/School Economics & Finance

Class Schedule: Lectures: Tuesday & Thursday, 1:00PM - 2:20PM
[MCKN](#), Room 308

Pre-requisites: ([ECON*3600](#) or [ECON*3810](#)), [ECON*3740](#), (1 of [ECON*3510](#), [ECON*3710](#), [ECON*3960](#))

Course Description

In this course we study money and banking through constructing a series of formal economic models. It consists of two parts. Part one explores the functions of money and the cost of inflation using the OLG models. In Part two, banking, including both private banking and central banking, is studied. We examine the role of banks played in the economy and why banks are prone to bank runs. This study will help students understand financial crises. In addition, we study how monetary policy conducted by the central bank will affect the economy. Students are required to write a Canadian key policy rate forecast report based on this part. A discussion on how to use various economic indicators to forecast the Canadian economy will be given in class to help you write this report.

Students are expected to develop a thorough understanding of important issues about money and banking, such as the role of money and banks in the economy, the cost of inflation, the origin and consequence of financial crises, how central banks conduct monetary policy, and how monetary policy affects the economy.

Indicative Content

Part One: Money

1. A Simple Model of Money

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 1.

2. Inflation

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 3.

3. Price Surprises

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 5.

Part Two: Banking

1. Capital

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 6.

2. Liquidity and Financial Intermediation

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 7.

3. Central Banking and the Money Supply

The Economics of Money, Banking and Financial Markets, Frederic S. Mishkin and Apostolos Serletis, 2008.

The Secrets of Economic Indicators: Hidden Clues to Future Economic Trends and Investment Opportunities, Bernard Baumohl, 2012, 3rd edition.

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 8.

4. Money Stock Fluctuations

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 9.

5. Bank Risk

Modeling Monetary Economies, Champ, Freeman, and Haslag, Chapter 12.

Course Assessment

			Due Date/ location
Assessment 1:	5%	Assignment 1	Feb 11, 2016 / in class
Assessment 2:	20%	Mid-term Exam	Feb 23, 2016 / in class
Assessment 3:	5%	Assignment 2	March 17, 2016 / in class
Assessment 4:	30%	Individual Essay	April 7, 2016 / in class
Assessment 5:	40%	Final Exam	April 11th 2016 at 8:30am Location: TBA
Total	100%		

The individual essay will be a Canadian key policy rate forecast report. Detailed instructions on this forecast report are provided at the end of the course outline.

Course Resources

Required Textbook:

Modeling Monetary Economies
Bruce Champ, Scott Freeman and Joseph Haslag
Cambridge University Press, 3rd edition, 2011

Champ, Freeman and Haslag (2011) is reserved at the university library for your access.

CourseLink (D2L):

Courselink will be used extensively in this course. Please check the courselink regularly to keep yourself posted. On the **home page**, you will find all the important information about this course, such as the reminders of the coming exams and assignments. In the section of **Content**, you will find the course outline and links to materials that are related to the course. In the section of **Grades**, you will find your grades for the midterm exam and the forecast report.

Course Policies

Grading Policies

<https://www.uoquelfh.ca/registrar/calendars/undergraduate/current/c08/c08-grds-proc.shtml>

Course Policy regarding use of electronic devices and recording of lectures

Electronic recording of classes or the use of cameras (including cell phones and iPads) in class is expressly forbidden without consent of the instructor. When recordings are permitted they are solely for the use of the authorized student and may not be reproduced, or transmitted to others, without the express written consent of the instructor.

University Policies

Academic Consideration

When you find yourself unable to meet an in-course requirement because of illness or compassionate reasons, please advise the course instructor in writing, with your name, id#, and e-mail contact. See the academic calendar for information on regulations and procedures for

Academic

Consideration:

<http://www.uoquelfh.ca/registrar/calendars/undergraduate/current/c08/c08-ac.shtml>

Academic Misconduct

The University of Guelph is committed to upholding the highest standards of academic integrity and it is the responsibility of all members of the University community, faculty, staff, and students to be aware of what constitutes academic misconduct and to do as much as possible to prevent academic offences from occurring.

University of Guelph students have the responsibility of abiding by the University's policy on

academic misconduct regardless of their location of study; faculty, staff and students have the responsibility of supporting an environment that discourages misconduct. Students need to remain aware that instructors have access to and the right to use electronic and other means of detection. Please note: Whether or not a student intended to commit academic misconduct is not relevant for a finding of guilt. Hurried or careless submission of assignments does not excuse students from responsibility for verifying the academic integrity of their work before submitting it. Students who are in any doubt as to whether an action on their part could be construed as an academic offence should consult with a faculty member or faculty advisor.

The Academic Misconduct Policy is detailed in the Undergraduate Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/2015-2016/>

Accessibility

The University of Guelph is committed to creating a barrier-free environment. Providing services for students is a shared responsibility among students, faculty and administrators. This relationship is based on respect of individual rights, the dignity of the individual and the University community's shared commitment to an open and supportive learning environment. Students requiring service or accommodation, whether due to an identified, ongoing disability or a short-term disability should contact the Centre for Students with Disabilities as soon as possible.

For more information, contact CSD at 519-824-4120 ext. 56208 or email csd@uoguelph.ca or see the website: <http://www.uoguelph.ca/csd/>

Course Evaluation Information

Please refer to the <https://www.uoguelph.ca/economics/course-evaluation>

Drop date

The last date to drop one-semester courses, without academic penalty, is March 11th 2016. For regulations and procedures for Dropping Courses, see the Academic Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/current/>

Course Learning Outcomes

Knowledge

1. **Written Communication:** Students are required to write a Bank of Canada policy rate forecast report. In this report, students are asked to forecast the policy rate decision of the Bank of Canada on April 17th, 2013 and to explain this forecast based on their understanding about the Bank of Canada's monetary policy target, Canadian economic outlook, and the mechanism through which monetary policy affects the economy.
2. **Numerical and Analytical Problem Solving:** Students are required to study a series of economic models that are essentially math problems. Students are required to learn how to solve the model, derive the solutions, and illustrate the solutions in graphs. This will be assessed in two assignments, midterm and final exams.
3. **Problem Solving in a Real World Context:** The forecast report asks students to evaluate

Canadian economic outlook and applies the course materials about monetary policy to the Bank of Canada's monetary policy decision.

Understanding

- 1. Economic modeling:** Students will learn a series of Overlapping Generations Models with money. Students are required to understand the fundamental issues in money and banking, such as the role of money and banks in the economy, the cost of inflation, and bank runs, revealed by these models.
- 2. Understanding of Specific Markets:** Students will understand how the money market works.
- 3. Historical and Global Context:** We will introduce the development of monetary policy over time. We will also compare monetary policy in different countries.
- 4. Economic Policy and Regulations:** We will examine monetary policy and compare it with fiscal policy. Regulations to banks to prevent bank runs are also studied.

Instructions on the Key Policy Rate Forecast Report

This report aims to help you understand how the interest rate policy is determined at the Bank of Canada, and how the interest rate policy affects the Canadian economy.

Every year the Bank of Canada selects eight pre-set dates on which it announces its key policy rate – the overnight rate target. For 2016, they are January 20, March 9, April 13, May 25, July 13, September 7, October 19, and December 7, respectively. Market participants pay close attention to these announcements because the decision on the overnight rate target will reveal the perspective of the Bank of Canada on the Canadian economy and will greatly affect the Canadian economy and consequently Canadian asset prices.

You are required to write a report to forecast the Bank of Canada's decision on April 13, 2016, based on your understanding about the Bank of Canada's policy target, Canadian economic outlook, and the mechanism through which the overnight rate target works on the Canadian economy. This report should contain

1. Your forecast on the decision of the Bank of Canada on the overnight rate target on April 16, 2016.
2. Your explanations about your forecast, which should contain:
 - a. Your general understanding about the goals the Bank of Canada intends to achieve using the overnight rate target and how the target will help the Bank of Canada achieve the goals. Please visit <http://www.bankofcanada.ca/core-functions/monetary-policy/> to find detailed information about this issue.
 - b. How your forecasted overnight rate target will help the Bank of Canada to achieve its goals in the current economic situation. Your argument should be based on your perspective about the Canadian economy, including its output growth, unemployment, and inflation pressure. You should form your perspective based on the latest statistics on related economic variables. You can find some useful information at <http://www.bankofcanada.ca/rates/>. In class, we will also discuss the regularly released data by the Statistic Canada and how to use these data to interpret the Canadian economic outlook.

The Bank of Canada issues a Monetary Policy Report after it announces its key policy rate to explain its decision on the rate, based on its view on the Canadian economic outlook, four times a year. This report will be a good reference for your forecast report. The currently available ones are at <http://www.bankofcanada.ca/publications/mpr/>.

The report should be double-spaced and 10 pages maximum.