



UNIVERSITÀ
CATTOLICA
del Sacro Cuore

Monetary economics

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Course aims and intended learning outcomes

The course takes an in-depth look at several fundamental aspects of monetary economics. Specifically, it addresses the main issues in monetary theory, the transmission channels of monetary policy to the real economy, the strategy and the instruments used in modern central banking, and the more recent developments related to the unconventional monetary policies. The course provides also an overview of the main features of the European Economic and Monetary Union, focussing on the interaction of fiscal and monetary policy in the EMU.

Course content

PREREQUISITES

Before the beginning of the course, students should make sure to be sufficiently familiar with:

- The role of money in the economy.
- Intermediate microeconomics and the required mathematical tools.
- Intermediate macroeconomics (relationship between macro variables, differences between short-run and long-run policies, aggregate demand policy, expectation augmented Phillips curve, aggregate supply and aggregate demand under adaptive expectations).

Students who do not feel familiar with the above-mentioned topics will benefit from reading:

K. SYDSÆTER-P. HAMMOND, *Essential Mathematics for Economic Analysis*, Pearson, 2012 (ch. 8, 13, 14).
MISHKIN, *Macroeconomics. Policy and Practice*, Pearson, 2014.

PART I

1. Rational expectation and money neutrality
 - The REH.
 - Solving models with rational expectations.
 - Cagan's model of hyperinflation.
 - The neutrality of monetary policy.
 - The non-neutrality of monetary policy and staggered contracts.
2. The new standard theory of monetary policy
 - The IS-AS-MP model.
 - Inflation targeting and Taylor rules.
 - Credibility.
 - Deflation and the zero lower bound
 - Monetary policy in an open economy.
 - Interactions between monetary and fiscal policy.
 - Monetary and fiscal policy in a monetary union.

PART II

3. The operational framework of monetary policy
 - Monetary policy instruments and supply of bank reserves.
 - The demand for bank reserves.
 - Equilibrium in the money market.
 - Unconventional monetary policies.
4. Economics of monetary union.
 - Costs and benefits of monetary unions.
 - The optimal currency area theory.



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- The fragility of incomplete monetary unions.
- The EMU and the Maastricht Treaty.
- The European Central Bank.
- Monetary and fiscal policy in a monetary union.
- Banking union: micro and macro prudential policies.

On completion of this course students will:

- understand the importance of monetary factors as opposed to non-monetary ones in determining output and inflation;
- understand the ways in which monetary policy can affect the real economy;
- be familiar with the strategies and the instruments of modern central banking;
- be familiar with the recent international developments related to unconventional monetary policies;
- be able to study Monetary Economics at postgraduate level.

Reading list

A special reading list of key publications (mainly scientific articles) will be distributed to the students attending class on a regular basis.

Lecture notes and slides will also be available on *Blackboard*.

P. DE GRAUWE, *Economics of Monetary Union*, 12e, Oxford University Press, 2018

Teaching method

Lectures supplemented by various assignments carried out with input from the tutor.

Assessment method and criteria

2 hours written paper, based on theory questions and applications (exercises).

Notes and prerequisites

Further information, in particular on office hours, can be found on the lecturer's webpage.