



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

DEPARTMENT OF ECONOMICS

ECON 138: Monetary and Fiscal Policy

Fall 2007

Instructor: Kristin Van Gaasbeck
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Office Hours: Monday 9-10:30am
Tuesday 9:30-11:30am, or by appt.
Office: Tahoe Hall 3015 (278-6194)

General Information

Lecture: M 5:30-8:20pm
Call Number: 86637
Section: 01

Prerequisites: ECON 1A and STAT 1;
ECON 100A and ECON 140 recommended

Catalog Description

Analyzes the policies of central banks and fiscal authorities as they relate to the stability and growth of the macroeconomy. Examines the theoretical and empirical literature regarding the conduct of monetary and fiscal policy and applies the tools of economic analysis to understand macroeconomic policy debates. 3 units.

Scope and Objectives

The purpose of this course is to introduce students to current issues in macroeconomic policy. We will explore both the theoretical debates and the practical issues faced by policymakers.

This course presents a broad examination of monetary and fiscal policies that governments may use to pursue macroeconomic objectives such as steady output growth, high employment, and low inflation. Attention is given to theoretical models, empirical tests, and relevant institutional details of the U.S. Specific topics include monetary theory, the transmission of monetary policy, international comparisons of monetary policy design, theories of fiscal policy, and analysis of the empirical effects of fiscal policy.

By the end of this course, students should be able to

- (i) define key components of the monetary system and fiscal policy,
- (ii) demonstrate knowledge of the fundamental issues in monetary theory as they related to policy debates,
- (iii) use monetary theory to analyze how monetary and fiscal policy affect key macroeconomic variables,
- (iv) compare monetary institutions and policies in the U.S. to those in other countries,
- (v) demonstrate understanding of theories and the empirical effects of fiscal policy,
- (vi) access data and conduct statistical analysis as it relates to policy debates.

You are expected to have a working knowledge of introductory macroeconomics (ECON 1A) and introductory statistics (STAT 1), before coming into this course. The readings, notes, and assignments for this course require a working knowledge of lower division economic theory and statistics.

Grading

The course grades will be distributed according to the following weighting scheme:

30% Term Exams	Two term exams (15% each)
30% Project	Written paper (20%); Presentation (10%)
20% Participation	
20% Homework	Four assignments (5% each)

Course Readings

- ECON 138 Course Reading List
Course readings you are responsible for throughout the semester will be posted online. This includes selected chapters from books, as well as research articles on monetary theory and macroeconomic policy.
- Board of Governors (2005). *Federal Reserve System: Purposes & Functions*. 9th ed.
An overview of the practical issues and implementation of monetary policy in the U.S.
Please order a free hard copy available for order as soon as possible at:
<http://www.newyorkfed.org/publications/result.cfm?pub=0487NN>
- Greenlaw, S. (2006) *Doing Economics: A Guide to Understanding and Carrying Out Economic Research*. Boston, MA: Houghton Mifflin.
This is a concise handbook that shows students the research process. It has useful information on how to complete the components of a research paper, writing in economics, data collection and transformation, and connecting theory to empirical methodology. We will not use the whole of this handbook, but you will find it useful in future courses (ECON 140 and ECON 145) and research.

**Assignments,
Project, and
Participation**

The course is organized into four broad topics:

- I. Intermediate Macroeconomic Theory
- II. Monetary Policy Implementation
- III. Issues and Debates in Monetary Policy
- IV. Fiscal Policy

Each area will include several research papers (provided in the detailed course outline and calendar) and one assignment. The assignment must be completed before the section of the course is completed. You are welcome to work ahead on your own as all materials will be posted in advance. The assignments will include a combination of theoretical, empirical, and written problems.

The project will include written and presentation components:

- The presentation component will involve participation in the Federal Reserve Symposium, where you will serve as a member of the Federal Open Market Committee and receive regular communications from the Federal Reserve Bank of San Francisco (for roughly 6 weeks before the Federal Reserve Symposium date). Please note, this will require that you be on campus during the day (late afternoon). We will conduct a practice run of the symposium during the regular class meeting time. Details on the symposium are given below.
- The written component will depend on the individual student. Examples of projects are: (i) preliminary work (a prospectus) for future research, (ii) a literature review to improve their understanding of the course content, or (iii) a report on a specific Federal Reserve district or industry sector that you represent in the symposium. The only restriction on your project covers a topic in monetary policy and that it conduct empirical analysis. Your written project requires three drafts: first, revised, and final.

Participation in the course will involve regular posting on the course discussion board. Every two weeks, a specific discussion topic will be posted. Students are required to respond to each topic (before the next one is posted) AND respond to a follow-up comment (from the professor or your classmates). Therefore, for each topic, you will have at least two responses posted.

Policies

1. Academic honesty is expected. All students must adhere to the University Student Code of Conduct outlined in the *University Policy Manual*.
 - I encourage you to work together on assignments, but all work completed for a grade must be your own. If you are having difficulty completing assignments, please begin your assignments as early as possible and seek out my help during office hours (or make an appointment to see me).
 - For written assignments, if you have any questions regarding plagiarism and the appropriate way to credit sources, review the *Policy Manual*, or confer with the instructor or tutors in the Writing Center. Plagiarism on any assignments will result in a score of zero on the assignment/exam where cheating occurs. All cases of student misconduct will be reported to Student Judicial Affairs.
 2. Late assignments will receive a letter grade reduction in the maximum possible score for each business day they are late.
 3. All written work must be proofread. You are responsible for editing your written work before submitted it for a grade. The policy on submitting work on time still applies.
 4. Attendance is expected. Please come to class on time during scheduled lectures and class discussions.
 5. You must provide an acceptable written excuse for work that you are unable to complete on time (e.g., a doctor's note or legal documentation).
 6. Course materials are available on the class web page. You are responsible for checking the web page regularly for updates and to participate in online discussion.
 7. If you decide to withdraw from this class, make sure you do so with the registrar. If you withdraw without permission, you will be assigned a failing grade.
 8. Keep cell phones shut off during class and class presentations.
 9. If you have a learning disability or a physical disability that requires accommodation, please let me know as soon as possible. All needs that have been verified through the Services to Students with Disabilities (Lassen Hall) will be accommodated.
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Important Dates

I. Intermediate Macroeconomic Theory :: Weeks 1-5

Assignment #1 due Monday, September 24

Exam #1 Monday, October 1

II. Monetary Policy Implementation :: Weeks 6-8

Assignment #2 due Monday, October 22

Rough draft of Project due Friday, October 26

III. Issues and Debates in Monetary Policy :: Weeks 9-12

Assignment #3 due Tuesday, November 13

Exam #2 Monday, November 19

Revised draft of Project due Wednesday, November 21

Federal Reserve Symposium December 3 (mock presentations Monday, November 26)

IV. Fiscal Policy :: Weeks 13-15

Assignment #4 due December 10

Final draft of Project due December 14

Detailed Course Outline (Tentative)

All readings are available online. The outline below provides you with a recommended schedule to follow in insure that you complete the course readings and assignments.

I. Intermediate Macroeconomic Theory

Week 1: Overview of the course

- Mankiw, N.G. (2006). The Macroeconomist as Scientist and Engineer. *Journal of Economic Perspectives*, 20(4), 29-46.

Weeks 2-3: The IS/MP/IA Model & The Phillips Curve

- Romer, D. (2006). *Short-Run Fluctuations*. <http://elsa.berkeley.edu/~dromer/papers/text2006.pdf> and http://elsa.berkeley.edu/~dromer/papers/Figures_for_Web_1-2-06.pdf

Week 4: Overview of Modern Macroeconomic Theory

- Snowdon, B. & Vane, H.R. (1997). The Development of Modern Macroeconomics: A Rough Guide. In B. Snowdon & H.R. Vane (Eds.), *A Macroeconomics Reader* (pp. 1-26). London : Routledge.

*** First Term Exam

Monday, October 1 ****

II. Monetary Policy Implementation

Weeks 5-6: Overview of the Federal Reserve and Monetary Policy in the U.S.

- Chapters 1-2 & 7 from Board of Governors. (2005). *Federal Reserve System: Purposes & Functions*. 9th ed.
- Mishkin, F. (1995). Symposium on the Monetary Transmission Mechanism, *Journal of Economic Perspectives* 9(4), pp. 3-10.
- Bernanke, B., & Mishkin, F. (1997). Inflation Targeting: A New Framework for Monetary Policy. *Journal of Economic Perspectives*, 11(2), 97-116.

Weeks 6-7: Implementation of Monetary Policy

- Chapters 3-4 from Board of Governors. (2005). *Federal Reserve System: Purposes & Functions*. 9th ed.

Week 8: Regulatory Functions of the Federal Reserve System

- Chapters 5-6 from Board of Governors. (2005). *Federal Reserve System: Purposes & Functions*. 9th ed.

*** Rough Draft of Project

Friday, October 26 ****

III. Issues and Debates in Monetary Policy

Week 9: Connecting Theory to Practice

- Chari, V. & Kehoe, P. (2006). Modern Macroeconomics in Practice: How Theory is Shaping Policy. *Journal of Economic Perspectives*, 20(4), 3-28.
- Blinder, A. (1997). "What Central Bankers Could Learn from Academics – and Vice Versa."
- Greenlaw (2006). Chapters 2 & 6-7

Week 10: Rules versus Discretion

- Taylor, J. (1993). Discretion versus Policy Rules in Practice. *Carnegie-Rochester Conference Series on Public Policy*, 39, 195-214.
- Van Lear. (2000). A Review of the Rules Versus Discretion Debate in Monetary Policy. *Eastern Economic Journal*, 26(1), 29-40.
- Siegler, M., & Van Gaasbeck, K. (2005). From the Great Depression to the Great Inflation: Path-Dependence and Monetary Policy, *Journal of Economics and Business* 57(5), pp. 375-387.

Week 11: Central Bank Independence

- Alesina, A. & Summers, L. (1993). Central Bank Independence and Macroeconomic Performance. *Journal of Money, Credit and Banking*, 25(2), pp. 151-62.
- Loungani, P. & N. Sheets (1997). Central Bank Independence, Inflation, and Growth in Transition Economies. *Journal of Money, Credit and Banking*, 29(3), pp. 381-99.

*** Second Term Exam

Monday, November 19 ****

Weeks 12-13: Federal Reserve Symposium

*** Revised Draft of Project

Wednesday, November 21 ****

IV. Fiscal Policy

The readings below are taken from Kopcke, R., Tootell, G. & Triest, R. (Eds.). (2006). *The Macroeconomics of Fiscal Policy*. Cambridge: MIT Press.

Week 14: The Case for and Against Discretionary Fiscal Policy

- Blinder, A. (2006). The Case Against and Case For Discretionary Fiscal Policy. (read comments)

Week 15: Government Finance and National Savings in the Short Run and the Long Run

- Friedman, B. (2006). Deficits and Debt in the Short and Long Run. (read comments)
- Cotis, J., Coppel, J. & de Mello, L. (2006). Is the United States Prone to "Overconsumption"?

Federal Reserve Bank of San Francisco University Symposium Elements

What is the University Symposium?

- The University Symposium is a program designed to enhance undergraduate students' understanding of the Federal Reserve System. Twenty universities have participated in the program since it was started in 2002.
- The program focuses on the conduct of monetary policy and features a real-time FOMC simulation with university students taking the roles of FOMC members.
- Recruiters from the Federal Reserve Bank of San Francisco will attend the Symposium to talk with interested students about Federal Reserve job opportunities.

Preparations for the University Symposium

Federal Reserve representatives work with students and university staff for several weeks prior to the Symposium. Regular communications are held with both university professors and students to outline the structure of the event, as well as to answer questions about economic resources and offer guidance on preparing student presentations. Additionally, current news articles and data releases are emailed to Symposium participants; this critical step introduces students to current debates on the economy and monetary policy, which they often integrate into their presentations during the Symposium.

Introductory Session

The University Symposium typically begins with a 2-hour introductory session that includes several 20-25 minute presentations by three Fed experts. Presentations usually include an overview of:

- Federal Reserve "Purposes & Functions,"
- Banking Supervision, regulation, and risks, and
- Introduction to the FOMC. This presentation helps set the stage for the FOMC simulation.

FOMC Simulation Session

The second 2-hour session includes student participation. Students assume the roles of Federal Reserve Board Governors and Federal Reserve Bank Presidents serving on the FOMC. The simulation works best with upper division economics majors as team members. Student team members should be familiar with macro concepts and monetary policy. Students from introductory-level courses may also be included in the audience; they often find that the program provides a good illustration of how the Federal Reserve System works and monetary policy decisions are implemented.

Staff Briefing: The real-time simulation starts off with a staff briefing for the Committee members and the audience—this is typically a 30 minute overview from a Fed economist. The briefing covers:

- Present economic conditions for key sectors and industries,
- Current FRBSF *FedViews* forecast and potential risks to the economy and the forecast, and
- Monetary policy alternatives.

Student FOMC "Go Around": Following the staff briefing, student FOMC members take center stage in the simulation. During the go-around the student FOMC participants provide their comments on the economy and their views on monetary policy. Depending on the number of teams, the FOMC member representing each team has 7 to 8 minutes to comment.

Directive and Vote: The student representing the Chairman will introduce a policy directive/FOMC statement that the FOMC members will discuss and vote on at the conclusion of the simulation.

Debriefing and Audience Questions: After the FOMC members vote, Fed staff then opens the floor to questions from the audience. Questions often are directed to both students and the Fed economist. This usually leads to lively discussions between the FOMC simulation participants and the audience of students, graduate students, and professors.