

# Monetary Economics (Bachelor)

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Summer/Winter term 20XX

## **Content**

This course provides a thorough introduction to monetary economics targeted at an undergraduate audience. It offers students the foundational knowledge and tools needed to understand and analyze modern monetary policy. We begin by examining the nature and creation of money, its role in the economy, and the instruments and objectives of monetary policy. Key topics include stabilization policies for addressing business cycle fluctuations, challenges posed by negative supply shocks, government debt, and rising inflation, as well as the interaction between monetary and fiscal policies.

## **Methods**

The course is designed for 4 SWS (3 SWS lectures + 1 SWS exercises). Exercises take place every two weeks during one of the sessions. Students are expected to prepare exercises before class to enable in-depth discussions.

The advantage of this course over widely available video lectures and/or your own reading is the opportunity to engage in intensive personal interaction. I encourage you to participate regularly on-site.

## **Requirements**

Students are assumed to have taken the introductory courses in microeconomics and macroeconomics. Interest in institutional and theoretical knowledge is assumed.

## **Learning objectives**

On successfully completing the module students will be able to:

- Develop an understanding of the theories explaining the existence and demand for money in the trading process.

- Explain the monetary transmission mechanism, illustrating how monetary authority decisions on money supply or interest rates affect the economy.
- Describe the main channels of the monetary transmission mechanism and their real economic effects.
- Explore macroeconomic models to evaluate monetary policy, incorporating both classical and Keynesian perspectives.
- Solve simple macroeconomic models and evaluate monetary policy across different frameworks.

## Assessment criteria

This course is assessed in a midterm and a final exam, each covering the material discussed in the first and second half of the semester. Each exam accounts for 50% of the grade.

## Literature

Slides for each lecture will be made available on Moodle. The lectures do not follow a single unified textbook. The following literature is intended as suggestions for interested students rather than required readings.

### English:

- Mishkin, Frederic (2018): *The Economics of Money, Banking and Financial Markets*, Pearson.  
**Helpful as an introduction and for a first verbal overview of many topics. However, the lecture goes beyond it in terms of difficulty.**
- Walsh, Carl E. (2017): *Monetary Theory and Policy*, 4th Edition, MIT Press.  
**Provides a broad insight into the literature on monetary policy and covers much of the lecture content.**
- Galí, Jordi (2015): *Monetary Policy, Inflation and the Business Cycle*, Princeton University Press.  
**Goes slightly beyond the level of this course.**

- De Grauwe, Paul (2020): *Economics of Monetary Union*, 13th Edition, Oxford University Press.

**Goes slightly beyond the level of this course.**

### **German:**

- Holtemüller, Oliver (2008): *Geldtheorie und Geldpolitik*, Mohr-Siebeck, Tübingen.  
**A German-language textbook that covers parts of the lecture.**
- Illing, Gerhard (1997): *Theorie der Geldpolitik*, Springer, Berlin.
- Issing, Otmar (2011): *Einführung in die Geldtheorie*, 15th Edition, Vahlen.

## **Plan of Lectures**

### **1. The Nature and Functions of Money**

- (a) What constitutes money and why people hold it
- (b) Origins and forms of money
- (c) Functions of money and its role in the economy

### **2. Money Demand and Supply**

- (a) Microeconomic determinants and macroeconomic functions
- (b) Financial intermediaries, banks, and money creation
- (c) Equilibrium in the money market: demand and supply mechanisms

### **3. Classical and Keynesian Foundations of Monetary Policy**

- (a) Classical dichotomy, neutrality of money, and general equilibrium
- (b) Welfare costs of inflation and the inflation tax
- (c) Keynesian perspectives: nominal rigidities, persistence of policy shocks, and the Lucas critique

### **4. The Phillips Curve and the Role of Expectations**

- (a) Short- and long-term Phillips Curve

- (b) Inflation expectations

## **5. Tasks and Objectives of Monetary Policy**

- (a) Price stability and stabilization of business cycle fluctuations
- (b) Costs of inflation and deflation, and the optimal inflation rate
- (c) Comparison of central bank objectives (ECB, Fed, BoE)

## **6. Transmission Mechanisms of Monetary Policy**

- (a) Interest rate channel (ISLM-ADAS)
- (b) Monetary stability and the Taylor principle
- (c) Exchange rate channel and wealth effects

## **7. Conventional and Unconventional Monetary Policy**

- (a) Inflation targeting
- (b) Liquidity traps
- (c) Quantitative easing

## **8. Monetary Policy Institutions and Mechanisms**

- (a) Rule-based policy, delegation, and independence
- (b) Central bank independence and the trade-off between flexibility and credibility
- (c) Digital Money and Cryptocurrencies

## **9. Monetary Policy and Government Debt**

- (a) Ricardian equivalence and the fiscal theory of the price level
- (b) Maastricht criteria and fiscal constraints in the Eurozone