Prerequisite for the course: Econ 201/202, Principles or equivalent.


Recommended: Study Guide to accompany text -- see bookstores.
(a limited number are available.)

A "hand out" of one or two current articles.

Examinations: Plan on a short exam each week (Friday or Monday) plus a final exam. In addition, I plan to assign one or two "take home" essay questions. Each exam will be partly "objective" and partly essay.

Coverage of Text: We plan to cover most of the book. Exceptions are chapters 24, 25, 29, 30 and possibly a couple of others. This means an average of 110 pages a week, or 25 pages per day.

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WEEK I
(6/6-6/10)
The Basics.........................Chap 1-5 and 31-32.
   Much of the material is not new, but do not slight it.
   Exam

WEEK II
(6/13-6/17)
Intermediaries & Banks.............Chap 6-11
   Exam

WEEK III
(6/20-6/24)
The Art of Central Banking.........Chap 12-16
   Exam

WEEK IV
(6/27-7/1)
Monetary Theory...................Chap 17-22
   Exam

WEEK V
(7/4-7/8)
Financial Mkts & Interest Rates.....Chap 23, 26-28
   Final Exam
STUDY/DISCUSSION QUESTIONS - WEEK I

Chap 1 (a) If tomorrow we had to revert to a barter economy, what changes would you make in your life? Would you move to Nebraska?

(b) Explain the connections between "money" and (1) consumer choice; (2) business efficiency, (3) economic efficiency of allocation of resources; (4) accumulation of capital goods (savings & investment) and (5) distribution of income & wealth.

(c) Why doesn't the "fed" include credit cards as part of the money supply?

(d) Rank your family assets in order of liquidity.

(e) What is velocity & why is it important?

Chap 2 (a) Is inflation of 2% (5%, 10%, 25%) a year a bad thing? Does inflation hurt everyone? Friedman says it is only unanticipated inflation that hurts. Do you agree?

(b) It was claimed that large wheat sales to Russia in 1973-74 created a shortage of wheat in U.S. Was this inflationary? Were the increases (3 fold) in oil prices inflationary? What does the "classical" quantity theory of money say about these cases?

(c) Sir John Hicks & others say that cost-push inflation occurs when wage increase demands are "validated" by the monetary authority. Explain.

Chap 3 (a) Explain why an individual bank is more limited in its ability to create money than the banking system as a whole.

(b) Could your IOU's increase the money supply?

(c) Does an increase in capital accounts enable a commercial bank to create more money? How could you change the system to break the connection between credit expansion and money growth?

(d) Does all loan expansion increase the supply of money?

(e) Explain how a series of crucial bank failures could create a "financial" crisis. What does a financial crisis mean?
Chap 4  (a) When the "Fed" wishes to sell securities, how can it always find buyers to buy them? How does it carry out the transaction?

(b) Could the "Fed" conduct open market transactions if it bought and sold something else than government securities? Grain? Real Estate? Gold?

(c) At one time open market purchases of $1m were estimated to end up increasing the M5 by $6m, but at present, the authorities are more likely to estimate $2.5m. Explain.

(d) Most open market operations (90% estimated) are "defensive" in character. Explain.

(e) What other "tools" does the "Fed" have to control the money supply? Explain. Why are they not emphasized like open market operations?

Chap 5  (a) Much more of our savings go through financial intermediations than 100 years ago. What are some possible reasons?

(b) How is financial intermediation related to "the" money supply? ....to velocity of money?

(c) How is interest collected on a Treasury Bill? How does the Treasury Bill auction work?

(d) What risk is incurred by buying a long-term bond rather than a 90 day bill?

Chaps 31-32 (a) Which is associated with a gold standard, fixed or floating exchange rates? Explain.

(b) If U.S. has an inflation rate double that of Germany, and we are both committed to a fixed par of exchange, what will happen which will tend to increase the inflation rate in Germany?

(c) The European Community has a goal of fixed exchange rates between the member countries. Is this a desirable goal? What conditions are necessary to facilitate fixed exchange rates without controls?

(d) How do high interest rates in U.S. impede recovery in Western Europe?