Economics 4112/5112 Economics of Money and Banking Spring 1991

Instructor: Don Roper

Office hours: TH 4:45-5:30  W 1:30-3:30  Rm 14

The course will explore the practice and theory of Western monetary arrangements. Course topics can be seen in the section titles below. The course begins with an introduction to some basic mechanics of interest rates and banking. We then take up central organizing concepts in monetary economics -- the demand and supply of money. These concepts are portrayed as the link between the banking industry and macroeconomic phenomena such as inflation and the business cycle. We then review, very briefly, some major monetary events of the 'eighties.

The course then proceeds to recount the evolution of Western monetary arrangements from the 19th century gold standard, through the Great Depression, the downfall of Bretton Woods, and the current debt crisis. Last, we take up the question of financial evolution and possible future monetary reform.

Grades will be based on the best three scores from four exams including the (comprehensive) final. The exams will be part objective and part short--essay questions. The exams are scheduled for February 19 (Tue, 5th week), March 21 (TH 9th week), April 23 (14th week), and May 9 (Th 11:30-2:30). There is no textbook for the course. The readings are a series of articles and manuscripts, many of which will be in a Kinkos packet. Students are also encouraged to subscribe to the Wall Street Journal as financial developments will be related to the war and terrorism.

INTRODUCTION --- SOME MONETARY/BANKING MECHANICS
"Yields, Capitalization Theory, Present Values and All That"
"Supply and Demand of Central Bank Liabilities"
"Fractional Reserve Banking and the Supply of Money"
"The Discovery of Open Market Operations"

MONETARY POLICY AND A BRIEF SURVEY OF THE 'EIGHTIES
William Greider SECRETS OF THE TEMPLE selections
Henry Kaufman INTEREST RATES, MARKETS ... selections
Benjamin Friedman DAY OF RECKONING selections
newspaper articles

CENTRAL CONCEPTS IN MONETARY ECONOMICS
"Notation and Manipulation of the Demand for Money"
"What is the Demand for Money" and "Reply"
"What's Money?"
"Altering the Rate of Return on Money to Eliminate Sustained Inflation"

MONETARY HISTORY AND THE EVOLUTION OF THOUGHT
"Late Nineteenth Century U.S. Monetary History ..."
PURCHASING POWER OF MONEY Ch. VIII Irving Fisher "The Neutrality of Money"
TRACT ON MONETARY REFORM Ch. 2 Keynes

MONEY AFTER THE GREAT WAR AND THROUGH THE DEPRESSION
"Debt--Deflation Theory of the Great Depression" Irving Fisher (1933)
Debts and Recovery 20th Century Fund, Ch 8 (1938)
PROGRAM FOR MONETARY STABILITY Milton Friedman, selections
"How Might Deflation Interact with Debt to Produce a Depression?"

EXCHANGE RATE POLICY and THE FUTURE OF MONEY
"Optimum Currency Areas" Robert Mundell
"Free Exchange Rates" Milton Friedman
"Evolution of Monetary Arrangements"
"Competitive Monies"