

Economics 325, Monetary Economics and Forecasting 2020.

Winter 2025

Bates College

Paul Shea

Class Times: TR. Section A: 9:30-10:50, Section B, 1:10-2:30. Students should generally attend their assigned section. If occasional conflicts arise, however, you may attend the other section instead.

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Office Hours: Tuesdays and Thursday, 12-1 PM.

Office: 278 Pettingill.

Course Website: www.paulshea.com. This site includes class announcements, readings, and assignments. Note that the class website is unrelated to Lyceum.

Course Description: This course provides a modern treatment of both theoretical and empirical monetary economics. We begin by developing a New Keynesian model, a workhorse model of monetary economics. We then consider current topics within this framework such as discretion versus commitment, non-conventional monetary policy, macro-prudential policy, and indeterminacy. Next the course develops forecasting tools including vector-autoregressions, local projections, and nowcasting techniques. These are then applied to current topics in empirical monetary economics.

Some of these topics, especially during the theoretical part, entail mathematical tools that are not covered by the course prerequisites. We will thus begin with a short treatment of operational linear algebra and a few aspects of multivariate calculus.

Prerequisites: Econ 255 and 270.

Reading Materials: You should buy the following:

Gali, Jordi. 2015. "Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications." Princeton University Press. The first edition is fine.

The rest of the course readings will be scholarly papers.

Assignments: Your grade consists of the following:

- i) A final exam, the date which is set by the Registrar. This counts for 30% of your grade.
- ii) A policy presentation. Groups of 3-4 students will be assigned to prepare a presentation. Some of these may entail providing policy guidance to a Central Bank (*e.g.* the Fed, the ECB, Bank of Canada, etc. Others may entail providing a forecast of a macroeconomic variable. This counts for 20% of your grade.
- iii) Two referee reports. Students will pick two papers, cited by one of the papers that we discuss in class. They will provide a short review (one to two pages) and a brief (5 minutes) presentation to the class. Each will count for 15% of your grade.
- iv) One of the referee reports may be replaced with a careful proposal for an Economics thesis.
- v) Two homework assignments. One will be focused on the New Keynesian model and the other will be focused on the econometric techniques developed in class. Each will count for 10% of your grade.
- vi) I may bump a student's grade by up to two-thirds of a letter grade for high quality participation.

Contesting of Grades: Grades reflect your mastery of the course material and concepts. Factors that do not affect your grade include, but are not limited to, your effort, your personality, the grade you "need" to achieve your hopes and dreams, how much you liked or hated the class, your grades in other courses, your own assessment of your performance, your 100-yard dash time, etc.

On the other hand, I do consider grade appeals on the basis of a mis-graded assignment, or an error in calculating your grade. If you suspect that this applies to you, please 1) submit your appeal

to me via email within one week of my returning an assignment or submitting final grades, and 2) limit your appeal to these grounds.

Inability to Complete Course Requirements: If you know that you cannot attend an exam or complete an assignment due to a non-college excused commitment, do not take this class. If an unanticipated commitment arises that prevents you from satisfying any of the course requirements, you must have your conflict verified by the Dean of Students' office. Be aware that this office will require documentation of all illnesses and deaths in the family. I will not personally judge the validity of students' conflicts. I reserve the right to either offer a makeup or roll the weight of the missed assignment into the other graded elements of the course.

Academic Dishonesty: I will pursue any instances of academic dishonesty. Historically, I have been very aggressive in investigating and sanctioning cheating.

Students with Disabilities: If you have a documented disability and need an accommodation, please make arrangements with me during the first week of the term. Please request that the Dean of Students; office send me a letter verifying your disability. You are unlikely to receive any substantial accommodation if you wait until right before an exam to notify me.

Please note that I am not qualified to diagnose a disability. You must therefore always go through the College.

Tentative Course Plan: To be Adjusted as Needed

Topic 0: Everything you ever wanted to Know about Linear Algebra in 40 minutes. Everything you ever wanted to Know about Multivariate Calculus in 5 minutes. [Estimated Time: 1 meeting]

Topic 1: The Basic New Keynesian Model. Chapters 1-4 in Gali. [Estimated Time: 3 meetings]

Topic 2: Current Topics in Monetary Policy: [Estimated Time: 6 meetings]

Specific papers will be posted on the website. Likely topics include the interaction of monetary and fiscal policy, indeterminacy, financial acceleration, non-conventional monetary policies, macroprudential policy.

Topic 3. Econometric Methods: VARs, Local Projections, Forecasts, and Other Terribly Exciting Things. [Estimated Time: 4 meetings]

Topic 4: Current Topics in Empirical Monetary Policy and Forecasting: [Estimated Time: 6 meetings]

Specific papers will be posted on the website. Likely topics include credit spreads, recession forecasting, yield structures, and the impact of recent monetary policies