Monetary policy in the U.S. and around the world is frequently in the news as policymakers work hard to control inflation, bring about balanced growth and maintain the stability of the financial system. Monetary Policy is an elective course that examines the institutions that run macroeconomic and banking policy and explains how they are supposed to work.

Several broad questions are addressed over the course of the semester:
- Why is monetary policy important?
- How is monetary policy conducted?
- How does monetary policy affect the macro economy?
- Why is banking and financial sector regulation important?
- How does monetary policy relate to exchange rate management?
- How is globalization of the financial sector affecting the conduct and efficacy of monetary policy?

These questions, among others, are discussed with a combination of lecture, discussion, case analysis and student presentations.

Monetary policy is the most important macro policy tool because it is used to attain three essential goals: a) to keep an economy out of recession, b) to keep inflation under control and c) to preserve the stability of the banking environment. The course examines the structure of the central bank, the Federal Reserve in the U.S., and explains how policy makers try to attain these three goals. The role of money, interest rates and exchange rates are studies as well as the way in which monetary policy affects each. In addition, the regulation of the financial sector and efforts to maintain stability are examined. The ways in which policy makers respond to financial crises and chronic inflation are also examined.
The course emphasizes current problems such as how the Fed should respond to the possibility of a recession and to fragility of mortgage markets. In addition, monetary policy developments around the world are discussed such as the expansion of the Euro area, chronic deflation in Japan and exchange rate and banking crises in emerging markets. We will carefully follow all of the Federal Reserve Open Market Committee meetings during the semester.

**Course prof.** The instructor is Prof. Paul Wachtel whose office is KMEC 7-69. He can be reached at 212 998 4030 and pwachtel@stern.nyu.edu.

**Course materials.** A text book will be assigned. In addition, there is a wealth of publicly available material on monetary policy coming from central banks, the IMF, etc. All additional materials will be available through BLACKBOARD.

Students are expected to keep abreast of Monetary Policy developments around the world. To do so, become a regular reader of the Financial Times, the Wall Street Journal or The Economist.

**Course Requirements and Grades.** The course grades will be based on the following with percentages indicated in parentheses:
- Assignments or cases (4 in total) – 20%
- Midterm – 25%
- Class participation and reports – 20%
- Final – 25%
- Class participation (10%)

**Tentative Course Outline**

1. Financial intermediation
   Investment, savings and financial structure
   Money and the payments system

2. Banking
   What is a bank and why is it special?
   Banking industry, structure, competition and regulation
   Why do we have central banks?

3. Central banks and monetary policy
   Structure of the Federal Reserve System
   Tools of monetary policy
4. How monetary policy affects the macroeconomy
   Keynesian and Monetarist channels
   Importance of expectations

5. What should a central bank do?
   Targets and rules

6. The international financial system
   Central banks and exchange rates
   Exchange rate systems
   The world’s central bank – the IMF

7. Cases in monetary policy
   The Fed and the Great Depression
   The Fed and inflation in the late 20th century
   The Fed meetings during the semester
   Deflation in Japan in the 1990s – monetary policy that failed
   Exchange rates, banks, reserves and China’s monetary policy

8. Regulating banks and maintaining stability
   Techniques of risk management
   Banks and financial sector regulation
   Deposit insurance
   Regulation of globalized financial markets

9. Cases in financial sector regulation
   The US Savings and Loan crisis
   Banking and exchange rate crises in Asia in 1998
   The mortgage meltdown and the recession of 2009?