

January 2024

HKUST, Department of Economics

Topics in Monetary Policy and Central Banking

1. **Course identification information.** Course name: Topics in Monetary Policy and Central Banking. Course number: Econ 5341. Instructor: Michael (“Mico”) S. LORETAN. Teaching assistant: Jeremy TO. Lecture format: hybrid (in person & online).

Lecture dates: Wed, Jan 10; Fri, Jan 12; Mon, Jan 15; Wed, Jan 17; Fri, Jan 19; Mon, Jan 22; Wed, Jan 24; Fri, Jan 26 (8 lectures total).

Lecture times: 2pm to 5:15 pm (3.25 hours each; 26 hours total).

2. **Global objectives.**

- a. Understand real-world importance of monetary policy, financial system stability, and payments system efficiency for an economy.
- b. Gain overview of how central banks—the institutions which design and implement these policies—go about doing their work.

3. **Course outline.** The course covers the following topics:

- a. Importance of central bank communication, with recent real-world examples.
- b. Microprudential and macroprudential approaches to regulating financial institutions and systems.
- c. Causes and consequences of inflation and hyperinflation. The global return of inflation since early 2021 and the response of central banks.
- d. Classical approaches to conducting “conventional” monetary policy.
- e. Breakdown of conventional monetary policy frameworks. Forms of “unconventional” monetary policy.
- f. The importance of new forms of digital money and changes in payment systems. Wholesale and retail central bank digital currencies (CBDCs). Fintech, bigtech, and cybersecurity challenges to payment systems and to the design and conduct of central banking.
- g. The role of forecasting in the conduct of monetary policy.
- h. International and open-economy aspects of monetary policy. Multilateral aspects of central banking.

4. **Method of instruction.** The course is designed around a series of lectures. Active participation by students, including asking questions and volunteering to provide

answers to questions posed by both the instructor and other students, is strongly encouraged. Engaging the instructor and the teaching assistant between classes is also encouraged.

5. **Textbook.** The main textbook for this course is *The Economics of Money, Banking, and Financial Markets*, by Frederic S. Mishkin. The book has 6 main parts; recommended reading sequence of the parts: 1, 3, 2, 4, 6, and 5. Please the relevant sections of the textbook ahead of and in parallel with the lectures.
6. **Assessment method.** [New for 2024] Grades for the course can be earned in one of two ways. *First*, the traditional or standard route: A take-home final exam, to be completed following the end of the course. The take-home final will consist of writing two essays – students will select the essay topics from a list of four topics provided by the instructor – that address and analyze economic statements related to monetary policymaking and central banking. (The list of four topics will be handed out during the course’s final lecture.) Students will have a choice between (a) writing the essays themselves and (b) letting a virtual A.I. machine, such as ChatGPT, write the essays for them and then performing an in-depth analysis of the quality and robustness of the machine-produced essays. If students select option (b), they must submit both the A.I.-produced essays and their own analysis of the A.I. essays. *Second*, with the instructor’s prior approval, up to four [4] students can elect to give an in-class presentation of 8 to 12 minutes length, on a topic related to recent Chinese monetary policy and financial system stability, during the final lecture (Jan. 26). The decision to use the second option must be made by the end of the first lecture (Jan. 10).
7. **Policies and procedures.** The department’s standard policies regarding academic conduct and misconduct apply. Students must complete the final exam on their own. Indications of illicit collaboration and outright copying will be investigated thoroughly and dealt with. Accommodations for students with disabilities and various time-sensitive requirements will be made as needed.
8. **Suggestions for taking the final exam.** The final exam is take-home. The final exam will consist of writing essays on two topics, chosen from a list of four topics provided by the instructor.

Some general remarks. When writing an essay on just about *any* non-trivial topic in economics, there is usually no single “correct” answer. What matters – in terms of assessing the quality of the essays – are *clarity of presentation, structural coherence, and the careful and consistent use of economic concepts and arguments*. Students should organize their essays around stating and justifying what they believe to be the *main arguments* either for or against the claim that has been set forth in the essay topic. Students should also make sure to *provide and explain supporting arguments* and pieces of evidence needed to bolster their main arguments. In contrast, the length of an essay (measured, say, by the number of words) is nearly irrelevant. When in doubt, students should give preference to brevity and conciseness.