

**January 2025**

**Department of Economics, HKUST**

**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: Mico LORETAN (mico@ust.hk). Teaching assistant: Jeremy TO (ecjeremy@ust.hk).

Lecture dates: Wed, Jan 8; Fri, Jan 10; Mon, Jan 13; Wed, Jan 15; Fri, Jan 17; Mon, Jan 20; Wed, Jan 22; Fri, Jan 24 (8 lectures total).

Lecture times: 1:30pm to 5:00 pm, with breaks (3.25 net hours per day; 26 net hours total).

2. **Global objectives.**
  - a. Understand real-world importance of monetary policy, financial system stability, and payments system efficiency. (PILO 4, 8, 11, 12)
  - b. Understand how central banks—the institutions which design and implement these policies—go about doing their work. (PILO 5, 6, 9, 10)
3. **Course outline.** The course covers the following major topics:
  - a. Importance of central bank communication, with recent real-world examples. (PILO 4, 5, 6, 10, 12)
  - b. Microprudential and macroprudential approaches to regulating financial institutions and systems. (PILO 5, 10, 11, 13)
  - c. Causes and consequences of inflation and hyperinflation. The global return of inflation since early 2021 and the response of central banks. (PILO 5, 10, 11, 13)
  - d. Conventional monetary policy frameworks. (PILO 3, 5, 6, 8)
  - e. Breakdown of conventional monetary policy frameworks. Forms of unconventional monetary policy. (PILO 3, 5, 6, 8)
  - f. Importance of new forms of digital money and innovation in payment systems. Wholesale and retail central bank digital currencies (CBDCs). Fintech, bigtech, and cybersecurity challenges to payment systems and conduct of central banking. (PILO 6, 9, 10, 12, 13)
  - g. Role of forecasting in the conduct of monetary policy. (PILO 3, 5, 6, 7, 9, 10)
  - h. International and open-economy aspects of monetary policy. Multilateral aspects of central banking. (PILO 3, 4, 5, 10, 11, 12)
4. **Method of instruction.** The course is designed around a series of lectures. *Active participation* by students, including asking questions during the lectures and volunteering to provide answers to questions posed by the instructor and other students, is strongly encouraged. Engaging the instructor between classes is also highly welcome.

5. **Form of attendance.** *In-person option only.* No option for online real-time attendance. In-class attendance will be taken in line with department policies. Students missing more than two classes will receive an automatic grade deduction.
6. **Textbook.** The textbook, distributed in eBook format, is *The Economics of Money, Banking, and Financial Markets*, by Frederic S. Mishkin. The book has six main parts. Recommended reading sequence of the parts: 1, 3, 2, 4, 6, and 5. Please study each of these parts ahead of and in parallel with the lectures.
7. **Assessment method.** Grades for the course can be earned in one of two ways.
  - a. *First*, the traditional or standard route: A *take-home final exam*, to be completed during the 72 hours immediately 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 an artificial intelligence (AI) 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 AI-produced essays and their own analysis of the AI essays.
  - b. *Second*, with the instructor’s prior approval, up to ten [10] students can elect to *give an in-class presentation* of 8 to 12 minutes length during the final two lectures, i.e., on Jan. 22 and 24. Suitable topics include recent developments or actions in Chinese or Hong Kong monetary policy, financial system stability, and other topics proposed by the instructor. The choice to use the second option must be *approved* by the instructor by the end of the first lecture on Jan. 8.
8. **Some general suggestions for taking the final exam.** When writing an essay on just about *any* non-trivial topic in economics, there is usually no single correct answer. For assessing the *quality* of an essay, what really matters are clarity of exposition, structural coherence, and a 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 provide and explain any *supporting arguments*, such as pieces of evidence that bolster their main arguments. Essays that *make interesting claims* are strongly preferred to those that “play it safe” and avoid making claims that could, in principle, be falsifiable. 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.
9. **Policies and procedures.** (a) Accommodations for students with disabilities and various time-sensitive requirements will be made as needed. (b) The school’s standard policies regarding academic conduct and misconduct apply. In particular, students must complete the final exam on their own, without receiving help from anyone else. Indications of illicit collaboration and outright plagiarism will be investigated thoroughly and dealt with.

These policies are laid out very clearly in an email message Associate Provost Jimmy Fung sent to all enrolled HKUST students on 27 November 2024. His message is reproduced here in full:

Dear Students,

As we approach the end of the term, I want to take a moment to acknowledge your hard work and dedication. Your efforts in preparing for your course assessments and final examinations are commendable. At HKUST, we are committed to upholding the highest standards of academic integrity, and we believe in your ability to achieve excellence with honesty and integrity.

Academic integrity is a cornerstone of our academic community, and it is our collective responsibility to maintain it. Cheating and academic dishonesty undermine the value of your hard work and the trust we place in each other. Therefore, any form of cheating will be formally reported by course instructors. If cheating is confirmed during the final assessment (e.g., final exam) or in any piece of assessment carries significant weighting on a course (e.g., mid-term), sanctions including a minimum penalty of an automatic “F” in the course and a notation of academic misconduct on your transcript, which can be removed at a specified time or upon graduation, are recommended according to the [Regulations for Student Academic Integrity](#). Strict sanctions, including suspension, have been imposed on students in a few previous cases.

Giving and receiving unauthorized assistance on course assessments can constitute misconduct, and zero tolerance means no leniency will be given. It is worthwhile to spend a few minutes reading the [Rules for the Conduct of Examinations](#), which include sections specifically for on-campus and online proctored examinations. Understanding these rules will help you navigate your assessments with confidence.

Please remember to follow the guidelines for using generative artificial intelligence (AI) tools for assessment at the course level as required by your instructors.

While you focus on your studies, please remember to take care of yourselves. Ensure you get enough sleep, eat well, and stay physically and emotionally well. If you ever feel stressed or overwhelmed, do not hesitate to make use of the resources available at (<https://counsel.hkust.edu.hk/>) or reach out to our 24/7 HEARing helpline at (852) 8208-2688, exclusively for all HKUST students.

We believe in your potential and are here to support you every step of the way. Let's work together to uphold the values of academic integrity and make this term a successful one.

Best regards,

Jimmy Fung, Associate Provost (Teaching & Learning)