ECON 5360 Monetary Economics

Department of Economics

Hong Kong University of Science and Technology

Spring 2025

(Rm 1007, LSK Bldg, MoWe 6:00PM - 8:50PM)

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Course Objectives

This course provides an introduction to monetary economics that treats money as the economywide response to some fundmental frictions. Starting from economic theories of money, it aims to enable students to examine (i) different causes for inflation (including fiscal policy and the relationship between debt and inflation), (ii) real effects of inflation (including the output-inflation correlation and wealth redistribution effect), (iii) real and nominal effects of different money injections (including the implication on the nominal interest rate from asset purchasing and the difference between asset-purchasing based injection and helicopter drop), (iv) competition of currencies (including what makes a monetary object, e.g., gold, fiat paper money, CBDC, cryptos, etc., a more acceptable object), and (v) a class of phenomena related to banking, credits and liquidity from monetary perspective.

Intended Learning Outcomes

1. Know the basic theories of money. (PILO 1, 2)

2. Learn theory implications to various policy-related issues. (PILO 1, 2)

3. Conduct theory-guided examination of monetary phenomena quantitatively and qualitatively. (PILO 1, 2)

Prerequisites: Econ 5130, 5140

Course material

There is no assigned book. Lecture notes, mostly built on journal articles, are provided. For the overlapping-generations models, one may refer to Ljungqvist and Sargent [1, Ch 9], Romer [2, Ch 2], and Sargent [3, Ch 7].

Grading

The grade is based on the midterm exam (30%) and the final exam (70%). The final exam is accumulative. There is no make-up for the mid-term exam. If you have a valid excuse, you are graded proportionately by the work completed. Illness is taken as a valid excuse only if a doctor indicates by a written note that illness affects you to take the exam. Refer to the University's policy for validity of other excuses.

Academic integrity: Cheating and plagiarism are not tolerated. Any violation will be reported to the university. See http://www.ust.hk/vpaao/ug-guide/integrity/ for details.

Course outline

03/31 Introduction/Lecture 1
04/02 Lecture 2/3
04/07 Lecture 3
04/09 Lecture 3/4
04/14 Lecture 4
04/16 Lecture 5
04/23 Lecture 5
04/28 Lecture 6
04/30 Midterm
05/07 Lecture 7
05/12 Lecture 8
05/14 Lecture 8
05/19 Lecture 9
(Final exam: 05/28)

Lecture 1: The classical dichotomy
Lecture 2: Monetary policy, a little bit
Lecture 3: Money in the OLG model
Lecture 4: Different causes for inflation
Lecture 5: Real effects of inflation
Lecture 6: Real and nominal effects of different money injections
Lecture 7: Dynamic programming
Lecture 8: Competition of currencies
Lecture 9: Others selected topics

References

[1] Ljungqvist, Lars and Thomas Sargent, "Recursive Macroeconomic Theory," Second Edition, MIT Press, Cambridge, 2000.

[2] Romer, David, "Advanced Macroeconomics," Fourth Edition, McGraw-Hill, New York, 2012.

[3] Sargent, Thomas J., *Dynamic Macroeconomic Theory*, Cambridge, MA: Harvard University Press, 1987.