

January 2023

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 4; Fri, Jan 6; Mon, Jan 9; Wed, Jan 11; Fri, Jan 13; Mon, Jan 16; Wed, Jan 18; Fri, Jan 20 (8 lectures total).

Lecture times (all times local-HK): 2pm to 5:15 pm, all dates (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 the performance of 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. 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 hyperinflations. The return of inflation since early 2021.
 - d. Classical approaches to conducting “conventional” monetary policy.
 - e. Breakdown of conventional monetary policy frameworks. Forms of “unconventional” monetary policy.
 - f. New forms of money, and changes in electronic payment systems. Fintech, bigtech, and cybersecurity challenges to payment systems and to the design and conduct of central banking. Wholesale and retail central bank digital currencies (CBDCs).
 - 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; read one part ahead of and in parallel with the lectures. Recommended reading sequence of the parts: 1, 3, 2, 4, 6, and 5.
6. **Assessment method.** Grades will be based primarily on students' performance in the take-home final exam, to be completed following the end of the course. The final exam will consist of writing two essays – students select the essay topics from a list of four topics – that address and analyze economic statements related to monetary policymaking and central banking. Above-average oral participation during the lectures will also positively affect students' grades.
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.