Email: cacpaiva@illinois.edu  Office: 28 DKH
Office hours: Mondays and Wednesdays 10:30 am – 11:30 am; and by appointment

Course Description (Catalog)
Theories of money; money in dynamic models; money in open economy macroeconomic models; stabilization policy; and international aspects of monetary theory

Course Objectives.
The purpose of this course is to introduce you to current theoretical and policy problems in monetary economics and macro policy while also helping you to understand developed financial systems and how they connect to the macro-economy. We will learn some basic finance and I will emphasize international aspects of the material whenever possible. We will discuss recent developments in financial markets and monetary policy around the globe. By the end of this course, students should understand: what determines bond prices, equity prices, price volatility, time value of money, financial regulation, and what can/should a Central Bank do.

Course Requirements and Evaluation Procedure.
The course grade will be determined by your performance on the following:
Homework Assignments: 20%  Exam 1: 20%  Exam 2: 25%  Final Exam: 35%

The final exam is comprehensive and will take place on Friday, December 18, 8 AM – 11 AM at Arch 120.

The following materials are allowed for use during the exam: graphing calculator, accounting calculator or four-function calculator. There are to be no books, papers other than the exam itself, cell-phones or other items that connect to the internet. Students found to be using unapproved items are in violation of the Academic Integrity policy of the University and will be subject to disciplinary action.

Course Materials:
- Lecture slides, articles for discussion, homework assignments and other supporting material will be posted on the course website: http://compass2g.illinois.edu
- I strongly recommend you to follow current events related to global financial markets and monetary policies. Many exam and homework questions will be related to those events. Among interesting and reputable sites, I recommend http://www.bloomberg.com and http://www.cnbc.com

Communication and Other Issues.
- Requests for re-graded exams must be handed in no later than one week after the exam is returned.
- Please use e-mail only for short and sporadic communication. Substantive questions, doubts about the material are best answered/discussed in class, during office hours, or special appointments, if needed.
- If you would like to go further in depth regarding practical issues related to monetary and macro policies, I would be glad to discuss and share experience and material I have developed in the context of my work for the IMF. For instance, I would be happy to discuss the IMF’s assessment and recommendations for your country as presented in recent reports available at http://www.imf.org/external/external/country/index.htm
- If you have any problems with the course, please come see me as soon as possible - don’t fall behind!
Tentative Schedule

Session 1: August 24. Overview & Intro
READ: chapters 1, 2

Session 2: August 26. Overview & Intro
READ: chapters 1, 2

Session 3: August 31. Interest rates and rates of return
READ: chapter 3
HW 1 will be posted on compass

Session 4: September 2. Determining Interest Rates
READ: chapter 4

No class on September 7 – Labor Day Holiday

Session 5: September 9. Determining Interest Rates
READ: chapter 4
HW1 due

Session 6: September 14. The risk and term structure of interest rates
READ: chapter 5
HW 2 will be posted on compass

Session 7: September 16. The stock market, information and financial market efficiency
READ: chapter 6

Session 8: September 21. Bank borrowing, bonds, or stocks – what’s better for growth and development?
HW 2 due

Session 9: September 23. The market for foreign exchange
READ: chapter 8
HW3 will be posted on Compass

Session 10: September 28. Transaction costs, asymmetric information & financial system structure
READ: chapter 9.

Session 11: September 30. Remaining items and review session.
HW3 due

**Session 12: October 5. Exam I (in class)**

Session 13: October 7. The economics of banking
READ: chapter 10

Session 14: October 12. Investment banks, mutual funds, hedge funds & the shadow banking system
READ: chapter 11.
HW4 will be posted on Compass

Session 15: October 14. Financial crises and financial regulation
READ: chapter 12.

Session 16: October 19. Financial market instruments, risk, leveraging, and the recent global crisis
HW4 due

Session 17: October 21. The FED and Central Banking
READ: chapter 13

Session 18: October 26. The FED's balance sheet and the money supply process
READ: chapter 14
HW5 will be posted on compass

Session 19: October 28. Monetary policy
READ: chapter 15

Session 20: November 2. Remaining items and review session
HW5 due

Session 21: November 4. Exam 2 (in class)

Session 22: November 9. The international financial system and monetary policy
READ: chapter 16

Session 23: November 11. The international financial system and monetary policy
READ: Chapter 16

Session 24: November 16. Country performance under alternative monetary arrangements
READ: lecture material posted on compass

Session 25: November 18. Fiscal Roots of Chronic and Hyperinflation + Stabilization Programs
HW 6 will be posted on compass

No Class on November 23 or 25 - Thanksgiving Break:

Session 26: November 30. Monetary Theory II: The IS-MP Model
READ: Chapter 18

Session 27: December 2: Monetary Theory II: The IS-MP Model
READ: Chapter 18
HW 6 due
HW7 will be posted on Compass

Session 28: December 7. Inflation Targeting
READ: lecture material posted on compass

Session 29: December 9: Course summary and review
HW7 due

Session 30: December 18, 8 AM – 11 AM at Arch 120