Topics in Central Banking: Managing Financial Instability Economics 220 University of Vermont

Professor Shirley Gedeon
shirley.gedeon@uvm.edu
337 Old Mill Bldg
656-0188
Office hours: Tuesday & Thursday, 2:30 - 4 p.m. and by appointment

Course website: bb.uvm.edu

The updated syllabus, PDF copies of all of the course readings, a detailed discussion of the expectations for the research paper, grade book, recommended links, and discussion board are available on the website

Textbooks:

- David Howarth and Peter Loedel, The European Central Bank, 2005 (recommended)

Syllabus

Part I: Review of Instability within Macroeconomic Theory

Tuesday, Jan. 13: Simple Accelerator Theory of Investment

Thursday, Jan. 15: Flexible Accelerator; Boom and Bust in the New Economy

Assignment due 1/15
- Read David Gordon, Macroeconomics, Ch. 16
- Answer Qts. 2, 4, 7, 10,11,13, and 17 on p. 541

Tuesday, Jan. 20: No Class

Thursday, Jan 22: New Classical Confronts New Keynesian Economics

Assignment due 1/22
- Read Gordon, Macroeconomics, Ch. 17
- Answer Qts 1-5, 7, 10, 12, 13, 19, and 21 on p. 576
• Read Knoop, Chs. 1 & 2

Tuesday, Jan. 27: Monetary Policy in New Classical/New Keynesian Models

Assignment due 1/27
• Bradford De Long, “The Triumph of Monetarism” (Group A presents)
• Joseph Stiglitz, “Reflections on the Natural Rate Hypothesis” (Group B presents)
• Alan Blinder, “Fall and Rise of Keynesian Economics” (Group C presents)
• Marvin Goodfriend, “Monetary Policy in the New Neoclassical Synthesis: A Primer”
  Bring 2-page summaries of each of the articles to submit after class

Thursday, Jan. 29: Dominant Models of Business Cycles and Their Shortcomings

Assignment due 1/29
• Knoop, Ch. 3 (Group A presents)
• Knoop, Ch. 4 (Group B presents)
• Wolfson, Ch. 2 & 3 (Group C presents)

Tuesday, Feb. 3 and Thursday Feb. 5: Financial Accelerator Model and the Role of Credit in Business Cycles

Assignment for 2/3 and 2/5:
• Knoop, Chs. 4 & 5
• Bernanke and Gertler, “Inside the Black Box, the Credit Channel of Monetary Policy, Journal of Economic Perspectives, vol 9, 1995
  Prepare for in-class essay quiz

Tuesday, Feb. 10: Friedman/Schwartz on the Great Depression

Assignment for 2/10:
• Milton Friedman and Anna Schwartz, Monetary History of the United States 1867-1960, Chapter on Great Depression (Group A presents)
• Christina Romer, “The Nation in Depression,” Journal of Economic Perspectives, Spring 1993 (Group B presents)

Thursday, Feb 12: NO CLASS – Prepare Midterm Exam
Midterm Exam is due in class on Tuesday, Feb. 17

Tuesday, Feb. 17 and 19: Monetary Policy, Asset Bubbles, and Financial Stability

Assignment for 2/17 and 2/19
• Knoop, Chs. 6 - 8
• Bernanke, “Asset Price Bubbles and Monetary Policy” (Group C presents)
• Paul Krugman, Return of Depression Economics (Group A presents)

Part II: Alternative Theory of Financial Instability: Hyman Minsky’s Financial Instability Hypothesis

Tuesday, Feb. 24 – Thursday, Mar. 5: Minsky’s Financial Instability Hypothesis

Assignment for 2/24 – 3/5
Selected readings from:
• Minsky, “A Deep Recession but not a depression in 1975: Impact of Lender of Last Resort Intervention,” Ch. 3 in Stabilizing an Unstable Economy
• Minsky, “Banking in a Capitalist Economy,” Ch. 10 in Stabilizing an Unstable Economy
• Robert Pollin, “The Relevance of Hyman Minsky”
• Eric Tymoigne, The Minskyan System, Part II: Dynamics of the Minskyan Analysis and the Financial Fragility Hypothesis
• Martin Wolfson, “Minsky’s theory of financial crises in a global context,” Journal of Economic Issues, 2002
• Charles Whalen, “Understanding the Credit Crunch as a Minsky Moment” Challenge, Feb. 2008
• Randall Wray, “Commodities, Market Bubble: Money Manager Capitalism and Financialization of Commodities, Levy Instituteute 2008
• Jan Kregel, “The Natural Instability of Financial Markets”

March 9 – 13: Spring Break

Part III: Role of Central Bank in Managing Financial Crisis: Case Studies

Tuesday, March 17 and Thursday, March 19: Financial Crises in the Postwar U. S. Economies

Assignment for 3/17
• Martin Wolfson, Part II
• Write a 2-page summary of assigned chapter and submit electronically to Prof. Gedeon
  Last name A – C: Ch. 4
  Last name D – G: Ch. 5
  Last name H – K: Ch. 6
  Last name L – P: Ch. 7
  Last name Q – S: Ch. 8
Assignment for 3/19
• Martin Wolfson, Part III
• Knoop, Ch. 8
• Prepare for in-class essay quiz

Week of March 17: Research Paper Conferences with Prof. Gedeon. Sign-up sheet for appointment times to be circulated in class on 3/17

Tuesday, March 24: Capital Flight and Causes of International Financial Crises

Assignment for 3/24:
• Knoop, Ch. 9

Thursday, March 26: Japan’s Trap

Assignment for 3/26
• Krugman, Ch. 3

Tuesday, March 31: The Asian Financial Crisis

Assignment for 3/31:
• View Frontline’s Video http://www.pbs.org/wgbh/pages/frontline/shows/crash/
• Krugman, Ch. 4

Thursday, April 1 – April 9: Topics in European Central Banking

Assignment for 4/1 – 4/9
Choose one of these texts to read:

1. Scheller, Hanspeter, European Central Bank: History, Role, Function. Published by the European Central Bank in 2006. Available under "Course Materials" as a PDF that you can print out (200 pages)

Part IV: Addressing Global Economic Instability

Tuesday, April 14 – 16: The 21st Century “Global Fix” to Instability
Assignment for 4/14 – 16
• Martin Wolf, Fixing Global Finance
• Krugman, Chs. 5-10
• James Crotty and Gerald Epstein, “Proposals to Effectively Regulate the U. S. Financial System”
• other readings TBA

MIDTERM II Due April 16

Tuesday, April 21 – end of semester

Presentations of Student Research

Grading:

.25(Midterm I) + .25(Midterm II) + .2 (Discussion/Reading Essays) + .3(Final Paper and Presentation)