

Master in European Economic Governance 2020-2021

Course Syllabus

Course	European Macroeconomic Policies – Part I: Monetary Policies
Lecturer	Pietro Reichlin
Course Description	The aim of the course is to provide a basic understanding of the architecture of the European Institutions presiding over monetary policies.
Primary References and Additional Materials	<p>[BW] R. Baldwin, C. Wyplosz, The Economics of European Integration, 5th ed. McGraw Hill, 2015. Parts I, IV and V.</p> <p>[DG] P. De Grauwe, Economics of Monetary Union, 12th ed., Oxford U.P., 2018.</p> <p>[M] F. Mishkin, The Economics of Money, Banking, and Financial Markets, 12th ed., Pearson, 2019.</p> <p>Additional papers and materials provided by the instructor.</p>
Course Objectives	Acquiring a broad knowledge of the evolvement, characteristics and motivations of the main institutions conducting monetary policies in the European Monetary Union. Getting a close look of the ECB monetary policy actions during the first twenty years of the EMU.
Prerequisite(s)	Macroeconomics (college level).
Teaching Method(s)	Lectures and in-class discussions
Assessment Method(s) and Grading Policy	Final written exam and class assignments

EXTENDED COURSE PLAN & LECTURE-SPECIFIC REFERENCES

**Lecture Duration: 2 hours*

Lecture 1	<i>Topic</i>	Review of the Standard Open Economy Model and Monetary Policy in open economy. The transmission mechanism of monetary policy in open economies. The Mundell-Fleming Model with flexible and fixed exchange rate regimes. The impossible trinity principle. Expectations and interest parity with exchange rate and country risk.
	<i>References</i>	<ul style="list-style-type: none"> • BW: Ch. 13.
Lecture 2	<i>Topic</i>	Review of the Aggregate Demand-Aggregate Supply Model. The monetary policy curve. The Taylor Principle. Equilibrium output and inflation. Responding to demand and supply shocks. The role of expectations. The zero lower bound.
	<i>References</i>	<ul style="list-style-type: none"> • M: Ch. 22, 23.
Lecture 3	<i>Topic</i>	Review of the Money Supply Process. Central Banks' balance sheet. Control of the monetary base. Deposit creation. Changing the money supply and the money multiplier. Open market operations and the target financing rate. Lending to banks, liquidity provision.
	<i>References</i>	<ul style="list-style-type: none"> • M: Ch. 16. • T. Keister and J. McAndrews, "Why Are Banks Holding So Many Excess Reserves?", Federal Reserve Bank of New York, Staff Reports n. 380, 2009.
Lecture 4	<i>Topic</i>	Tools, strategy and tactics of Central Banks. Goals of Central Banks. Time inconsistency. Inflation targeting and Taylor Rule. Liquidity traps, financial crisis and the role of lender of last resort. Credit booms and macro-prudential policies. Non conventional monetary policy tools. Quantitative easing.
	<i>References</i>	<ul style="list-style-type: none"> • M: Ch. 17. • T. Adrian and N. Lang, "Monetary Policy, Financial Conditions, and Financial Stability", CEPR D.P. 11394, 2016.
Lecture 5	<i>Topic</i>	The European Central Bank. General design, structure, strategy and tools. The economic and financial structure of the Euro Area.
	<i>References</i>	<ul style="list-style-type: none"> • DG: Ch. 9. • <i>The Monetary Policy of the ECB</i>, ECB, 2011. • O. Issing, "Europe's Hard Fix: The Euro Area", 2006. • Central Bank: Monetary Policy", ECB W.P. 2219, 2018.

	<i>Topic</i>	Monetary Policy in the Euro Area. The first 10 years and the post crisis experience. Evolution of strategy and implementation of the ECB monetary policy. Comparing the Fed and the ECB policies.
Lecture 6	<i>References</i>	<ul style="list-style-type: none"> • DG: Ch. 10. • M. Draghi, “Introductory remarks at the EP’s Economic and Monetary Affairs Committee”, 2014 • P. Hartmann and F. Smets, “The First Twenty Years of the European Central Bank: Monetary Policy.” • M. Brunnermeier and R. Reis, “A Crash Course on the Euro Crisis”. NBER W. P. 26229, 2019.