



ST. FRANCIS XAVIER UNIVERSITY

Department of Economics
Faculty of Arts

ECON 336: Money and Financial Markets II

Winter 2024

Description:

In 336 we examine how the central bank can, via monetary policy actions, influence the path of asset prices, output and inflation. Special attention will be given to current policy issues, including the impact of successive interest rate increases since 2022 on the economy.

Lectures:

Wednesday 9:45 – 11:00

Friday 8:15 – 9:30

Lecture Locations:

Mulroney Hall 4034

Instructor:

Greg Tkacz, Ph.D.

Instructor's Office:

Mulroney Hall 3075

Office Hours:

Monday 11:15 – 12:45

Wednesday by appointment

Friday 9:45 – 1:00

E-mail: gtkacz@stfx.ca

Profile Page: <https://www.stfx.ca/faculty-staff/greg-tkacz>

Evaluation:

Assignment (due Wednesday February 14): 20%
Mid-Term Exam (Wednesday February 28): 30%
Monetary Policy Report group presentation & participation (March 20, 22, 27 or 29): 10%
Monetary Policy Report, final draft (March 20): 40%

Drop Date

Students may drop ECON 336 on Banner by **FRIDAY MARCH 8.**

Learning Objectives:

1. To expand students' knowledge of monetary theory by introducing them to different measures of the money supply and how changes in these can impact the economy and financial markets;
2. To show students how monetary policy is conducted in practice, including the range of issues that confront policy-makers, and the types of data they monitor; and
3. To allow students to make informed contributions to monetary policy and financial stability policy debates and discussions.

Textbook and Readings:

This course is designed around a FREE open-source textbook. This has the advantage of lowering costs for students, but the disadvantage is that the book is U.S.-based, so we need to "Canadianize" the content. For this reason, we will also rely upon some FREE Canadian resources.

1. Wright, Robert E. (2012) *Money and Banking*. Saylor Foundation: Open Textbook Library, ISBN: 978098204308. FREE textbook that can be downloaded from <https://open.umn.edu/opentextbooks/textbooks/29>
2. Bank of Canada *Press Releases* and *Monetary Policy Reports*.
3. We will monitor current economic and financial developments in the media. Links to relevant stories will be provided on Moodle.

Important Policy Dates

- Bank of Canada fixed action dates: Jan 24 (+MPR), Mar 6, Apr 10 (+MPR)
- FOMC meetings: Jan 31, Mar 20
- GDP data releases: Jan 31 (Nov 2023), Feb 29 (Dec 2023), Mar 28 (Jan 2024)
- CPI data releases: Jan 16 (Dec 2023), Feb 20 (Jan 2023), Mar 19 (Feb 2024)
- LFS data releases: Jan 5 (Dec 2023), Feb 9 (Jan 2024), Mar 8 (Feb 2024)

Course Outline

Weeks 1-3: Monetary Policy Tools and Targets

We'll explain how the Bank of Canada can implement policy by influencing the money supply and overnight interest rate. This is currently extremely relevant as the Bank conducted "Quantitative Easing" in March 2020 and "Quantitative Tightening" since 2022. How does it work? What are the implications? We'll also explain how monetary policy goals are set every five years in Canada, with the latest update occurring in December 2021.

- Chapter 14: The Money Supply Process
- Chapter 16: Monetary Policy Tools & Implementation
- Chapter 17: Monetary Policy Targets, Goals and Rules

Weeks 4-6: Monetary Theory

We'll develop a simple model that allows us to track the impact of monetary policy actions on interest rates, output and inflation.

- Chapter 20: Money Demand
- Chapter 23: Aggregate Supply and Demand
- Chapter 26: Money, Rational Expectations and the AS-AD Model

Week 7: Reading Week

Weeks 8-10: Current Macroeconomic and Financial Developments

Using the tools we've developed, we will analyze current financial and economic developments and determine what policy-makers **should** do. This will help students think about the issues that should enter their **Monetary Policy Reports**.

Weeks 11-12: Student Presentations

Groups of four students will draft a **Monetary Policy Report**, a (maximum 20-page) document that:

- Analyzes Canadian and international economic developments
 - Analyzes Canadian and international financial developments
 - Based on all available information, predicts what will happen to the economy and financial markets over the next 24 months;
 - Identify potential RISKS (economic, financial, political, social, environmental, etc.) that could impact your prediction above; and
 - Provides specific advice to the Governor of the Bank of Canada (i.e. ME) regarding monetary policy actions (e.g. should the overnight rate increase, decrease, or stay the same? When should it change? Should Quantitative Tightening be wound-down or expanded? Etc.)
- All groups will have 20-25 minutes to present the above to the whole class, with 5-10 minutes available for Q&A.