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MONETARY ECONOMICS INSTITUTIONS, THEORY, AND POLICY

(ECN 4100)

Please read this syllabus carefully. It will answer many questions about the class, and will help you to avoid missing assignments and making other mistakes that could cost you some credit points. *Note that the syllabus is a general plan for the course only; deviations may be necessary and will be announced in class.*



Course Description

This is an intermediate-level course on the principles of money and banking. Part I of the course examines the nature and historical development of monetary and banking institutions. Part II looks at the determinants of the supply of and demand for money, introduces the concept of "monetary equilibrium," and then considers the effects of monetary disturbances on commodity prices, interest rates, and real output. Part III, finally, deals with questions of monetary policy, including various schemes for reforming existing banking and currency arrangements.

You will be graded on a point system, meaning that your final grade depends only on the *total* number of points you earn in the course, rather than on *percentage* scores on individual assignments. Your point score will be based on class participation, worth up to 25 points, a mid-term exam, also worth up to 25 points, and a *cumulative* final exam worth up to 50 points. I sometimes also give homework or in-class assignments by which you may earn a few additional credit points.

I will calculate your overall grade in two ways: first, by simply adding total points; second, by doubling the point value of your cumulative final exam, ignoring the mid-term score. Your final, letter grade will be based upon the *highest* of these alternative point scores. I guarantee a letter grade of "A" to anyone who earns a total of at least 90 points: you *might* end up with an "A" despite having fewer points, but I cannot guarantee that up-front. The final assignment of letter grades will be determined at the end of the term. I will not assign plus or minus grades and I do not round-up.

I expect all students to attend class, and I strongly encourage class participation. I also expect students to read all assigned materials *before* the lecture for which they are assigned. It is up to you to keep me informed of whether the material makes sense to you. The best way to do this is to ask questions during class whenever any confusion crops up. You are also encouraged to take advantage of my office hours and accessibility via e-mail. The lecture notes contain more advice on how to do well in this class.

Please note that, owing to the size of the class, I will not administer make-up exams. Nor can I accommodate students wishing to take exams ahead of time. Should you miss the mid-term, it is understood that you will be relying upon the cumulative final exam for your overall grade. Should you miss the final exam owing to a medical emergency (which must be documented by a doctor's letter certifying your inability to attend the exam) I will assign a grade of "incomplete" to be removed upon your taking the exam with one of my subsequent classes.

I will not under any circumstances assign "extra credit" work once the final exams have been administered. Your final grade, as based on the terms given in this syllabus, is *non-negotiable*. Therefore, if you find yourself struggling in the class, you are strongly advised to see me during the term so that we can discuss your situation.

Grading: Summary

Participation:	(up to) 25 points
Mid-term:25 points
Final:50 points

Where A=90 or above; B=80 to 89; C=70 to 79; D=60-69; F=<60. The grade "curve" may be altered in students' favor at my discretion.

The Honor Code and Academic Honesty

As a University of Georgia student, you have agreed to abide by the University's academic honesty policy, "A Culture of Honesty," and the Student Honor Code. All academic work must meet the standards described in "A Culture of Honesty" found at: www.uga.edu/honesty. Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.



READING MATERIALS

To spare you from having to take copious notes, a set of notes, along with an outline of lecture topics, is available at <http://www.terry.uga.edu/~selgin/ECON4100.html>. *You should plan to print the notes and bring them to class with you as I will refer to them there.* Bear in mind that the notes cover only part of the material covered by my lectures. They aren't meant to be a substitute for attending classes and taking your own notes. I have also spared you the necessity of buying a textbook. Most of the required readings are available online and are linked directly to the assignments listed below. Some (mainly optional) materials are contained in my published collection of *Readings on Money and Banking*, which is also available from my webpage. Further optional readings are available through the library's E-Reserve service on GIL. The password to access documents for this class is "gselgin." Specific reading assignments are listed below. Readings designated C-1, C-2, etc. (for Collection chapter 1, Collection chapter 2, and so on) are from my edited collection; those designated W-1, W-2 are from John Wood, ed., *Money, Prices and the Real Economy*. Readings listed as "optional" may prove helpful, but you will not be quizzed directly on their contents. Be prepared to read between one and two chapter-length readings for each date on which the class meets--about the same amount of reading as might be contained in a standard (albeit thick!) money and banking textbook.

LECTURE OUTLINE AND READING ASSIGNMENTS

PART I: INSTITUTIONS

1. [Why Study Money?](#)
2. [The Nature and Functions of Money](#)



Readings: Jevons, chapters 1-3 of [Money and the Mechanism of Exchange](#); McCulloch, "Why Bother?" from *Money and Inflation* (C-1); Meltzer, "What is Money" ([W-1](#)); Weatherford, "Cannibals, Chocolate, and Cash" (on reserve, optional).

3. [The Evolution of Money](#)

Readings: Menger, "[The Theory of Money](#)" (also at C-2); Selgin, "[Gresham's Law](#)" (from EH.net Encyclopedia); Selgin: "[Salvaging Gresham's Law: the Good, the Bad, and the Illegal](#)" (Optional).

4. [The Origins of Banking and the Clearinghouses](#)

Readings: Jevons, chapter 21 of [Money and the Mechanism of Exchange](#); Selgin and White, "The Evolution of a Free Banking System" (C-3; Optional).

5. [Central Banks and Fiat Money](#)

Readings: Dowd, "The Establishment of Central Banking" (C-4); McCulloch, "Inflationary Finance" (on reserve, optional); Glasner, "Money and the State" (on reserve; optional); Selgin and White, "[A Fiscal Theory of Governments' Control of Money](#)" (optional).

6. The Development of Banking in the United States

Readings: Christainsen, "[Fiat Money and the Constitution: A Historical Overview](#)"; D.R. Whitney, [The Suffolk Bank](#) (especially chapters 1 and 2); Dwyer, "[Wildcat Banking, Banking Panics, and Free Banking in the United States](#)" (also available as C-5).

7. The Civil War and its Monetary Legacy

Readings: Selgin, "[The Suppression of State Banknotes: A Reconsideration](#)" (on reserve; Optional); Selgin, "[End the Fed? A Not-So-Crazy Idea](#)"; Schuler, "Free Banking in Canada" (on reserve).

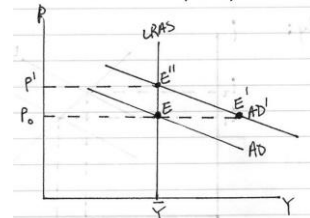
8. The Federal Reserve and After

Readings: Horwitz and Selgin: "[Interstate Banking: The Reform that Won't Go Away](#)"; White, Eugene Nelson, "Federal Banking Reform and the Evolution of the Federal Reserve System" (on reserve, optional).

II. THEORY

9. The Theory of Money Supply

Readings: Siegel, "The Banking Business: Fundamentals" (C-7); Poole, "The Creation and Destruction of Money" (on reserve, optional); Federal Reserve Bank of Chicago, "[Modern Money Mechanics](#)".



10. The Demand for Money

Readings: Cannan, "[The Application of the Theoretical Apparatus of Supply and Demand to Units of Currency](#)"; Thornton, "[Why Does Velocity Matter?](#)" (also available at C-8).

11. Money, Inflation, and Deflation

Readings: Hazlitt, "[What You Should Know about Inflation](#)"; McCulloch, "Velocity and the Quantity Equation" (on reserve); Sennholz, "[Hyperinflation in Germany](#)"; Capie, "The long-run relationship between money and prices" (W-2); Selgin, "[The Price is Right](#)"; Selgin, *Less Than Zero* (on reserve, optional).

12. Money and Interest Rates

Readings: [Wicksell, "The Influence of the Rate of Interest on Prices"](#); Poole, "Money and Interest Rates" (C-11); Wood, "Money and Interest Rates" (W-6).

13. Money and Output

Readings: Weiner, "[The Natural Rate of Unemployment](#)" (also at C-12); Rasche, "Money and Real Output" (W-7); Hahn, "[Compensating Reactions to Compensatory Spending](#)". Hayek, "[Inflation, the Misdirection of Labor, and Unemployment](#)" (also at C-13)

14. The Business Cycle

Readings: Robbins, [“The Genesis of the Depression”](#) (Austrian view) (C-15); Garrison, [“Friedman’s ‘Plucking Model’](#)”; Friedman, “The Great Depression” (monetarist view; on reserve, optional).



III. POLICY

15. Banking Crises and Bank Regulatory Policy

Readings: Selgin, “Are Banking Crises a Free-Market Phenomenon?” (C-16); Selgin, [“Legal Restrictions”](#) etc. ; Kaufman, “The Truth about Bank Runs” (on reserve, optional); Schwartz, “Why Financial Stability Depends on Price Stability” ([W-3](#)).

16. The Subprime Lending Crisis

Readings: Selgin, [“The Federal Reserve Should Resist Tinkering”](#); White, [“How Did We Get Into this Financial Mess?”](#)

17. International Monetary Regimes

Readings: Friedman, [“The Case for Flexible Rates”](#) (from *Essays in Positive Economics*); John Williamson, [“A Consideration of the Pros and Cons”](#) (from *What Role for Currency Boards?*); Hanke, [“On Dollarization and Currency Boards.”](#)

18. Domestic Monetary Policy

Readings: Dwyer, [“Rules and Discretion in Monetary Policy”](#); McCallum, “Choice of Target for Monetary Policy” ([W-5](#)).

19. Radical Alternatives I: The Gold Standard

Readings: Bordo, “The Gold Standard: Myths and Realities” (C-19); Bordo: “Monetary Regimes and Economic Performance: Lessons from History” ([W-4](#)); White, [“Is the Gold Standard Still the Gold Standard among Monetary Systems?”](#)

20. Radical Alternatives II: Choice in Currency and Free Banking

Readings: Hayek, [Choice in Currency: A Way to Stop Inflation](#); Selgin, “Free Banking and Monetary Reform” (C-21); Bordo, “The Lender of Last Resort” (C-22).



HOW TO DO WELL IN THIS CLASS

Although every student has his or her own special studying needs, there are a few rules which, if followed, I think will help any student to do well in my class. Here are some of them:

1. Attend all Classes

By "attend," I don't just mean "show up." I want you to try and really listen to the lectures. A couple suggestions for being a good listener:

- a. please arrive on time and do not leave class before I am finished lecturing without asking my permission first. (Doing otherwise is bad manners.)
- b. try to sit towards the front of the room. The further away you are from the speaker, the more tempting it is to talk to your neighbor or fall asleep instead of listening.
- c. don't try to copy everything I say. The notes should help you to avoid this awful habit. Note taking is helpful only if it complements listening. That means that you should try to use economy in writing notes; outlining main points. Be sketchy, and plan to re-write your notes in a more orderly and complete way later on (see below).
- d. ASK QUESTIONS! As soon as you feel confused about something, stick your hand up. You don't have to have a polished question to ask. A simple, "I didn't follow that; could you go over it again?" will do. Also, don't hesitate to ask for further details, or to bring-up side issues. Doing so is a way to keep yourself engaged in the lecture: a good listener also participates. You also do your fellow students a favor by asking questions they may have been too shy to ask themselves (and who ever heard of a student who minds an opportunity to relax while some others catch up?). As for me, I genuinely like it when students ask questions, so fire away!

2. Read the Readings

Attending lectures can never be a substitute for reading. The lectures give you a broad overview; the readings supply details and, if read with care, will "drive home" the main points.

Here are a few rules to follow about reading:

- a. read readings before the lecture they are supposed to accompany. You will find some of them difficult when read this way; but the lectures will then become more meaningful, especially if you
- b. jot-down questions about the readings, and ask those questions in class. It is perfectly proper to ask me about a reading during the lecture that goes along with that reading.
- c. take notes on the readings. Try to "outline" the reading, as if it were a lecture you had to summarize.
- d. review readings again prior to exams, especially those on subjects you find most difficult.

e. consider going beyond the syllabus: if a subject seems really confusing, some other outside reading may help. Ask me for suggestions.

3. Study Systematically

Here are a few suggestions:

a. consider carefully and neatly re-writing your notes, combining information from the lectures with information from the readings.

b. do the bulk of your studying alone. Group studying may be a good idea for a last-minute review, and for clarifying points of confusion, but it is a poor substitute for studying alone. (If people only study together, they end up making the same mistakes.)

c. don't crib. Yes, there are copies of my old exams floating around. But I can assure you from past experience that students who rely on these alone do very poorly on the exams. Besides, isn't it silly to waste an opportunity to actually learn something?

d. do not delay studying until the last minute. That way, if you still find yourself confused about some topic, you can

4. See me.

That's what office hours are for. I may also be available at other times, by appointment. Or, if you like, just send your questions to me by e-mail at: Selgin@uga.edu

Please do not end up being one of those students (I meet one or two each term) who never sees me at all all term, but then comes to my office during the last week of class to inform me that he or she hasn't understood anything. There is very little I can do for such a student. So, if you are inclined to panic, please panic early!

