EXPLORATIONS IN MONETARY ECONOMICS
ECO 6183
COURSE INSTRUCTOR : MARC LAVOIE
WINTER 2012

Course schedule : Thursday 14:30 – 17:20
Course location : Desmarais 10161
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Office hours : Thursday 13:00 – 14:00 or by appointment
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OFFICAL COURSE DESCRIPTION

A course in which explorations in theory, policy recommendations and empirical study are undertaken. The material challenges traditional approaches by examining such topics as the endogeneity of money, the role of credit, the finance motive, the circuit approach, flow of funds analysis and austerity policies.

OBJECTIVES

To demonstrate that there exists an alternative and coherent view of money and monetary economics which is distinct from the standard neoclassical framework: the post-Keynesian monetary theory; to understand what the major features of this alternative are; to understand the operational framework of the Bank of Canada as well as the clearing and settlement system; and to understand the implications of the subprime financial crisis for the operating procedures of central banks.

A large section of the course will be devoted to making sure that the accounting of macroeconomic models is right. Every financial asset has a counterpart liability; and budget constraints for each sector describe how the balance between flows of expenditure, factor income and transfers generate counterpart changes in stocks of assets and liabilities. The accounts should be comprehensive in the sense that everything comes from somewhere and everything goes somewhere, or to put it more formally, all stocks and flows can be fitted into matrices in which columns and rows all sum to zero. In the standard neoclassical model, where there is an exogenous stock of money, there is no consistency.
TEXTBOOKS

There are two books that you have to purchase.


WEBSITES

Here are a few suggestions of interesting websites that provide an extensive amount of information regarding heterodox economics and critiques of mainstream economics.

A Canadian website, that of the Progressive Economics Forum, in particular check its blog: [http://www.progressive-economics.ca/](http://www.progressive-economics.ca/)

Check also:
- A funny and original, but also informative, website, that of Aussie Steve Keen: [http://www.debtdeflation.com/blogs/](http://www.debtdeflation.com/blogs/)
- And here is another Australian blogger, active every day, Bill Mitchell, with his Billy blog: [http://bilbo.economicoutlook.net/blog/](http://bilbo.economicoutlook.net/blog/)
- Finally, you can see a book in the making, by checking the “Modern Money Primer”, on the New Economic Perspectives blog: [http://neweconomicperspectives.blogspot.com/](http://neweconomicperspectives.blogspot.com/)

STUDENT EVALUATION

(i) a mid-term exam, the date of which will be in March and remains to be determined [45%]
(ii) a class presentation [10%]
(iii) an individual report [10%]
(iv) a homework-essay, the deadline of which will be during the exam period, April 20th [30%];
(v) class attendance [5%];
Class presentation

On February 2\textsuperscript{nd}, students will be presenting one chapter from the book \textit{Zombie Economics}. Students will have to proceed by teams of two. There should be about 8 teams. Chapters 1, 2, 3 and 4 will be assigned at random, and a draw will be conducted on January 19. Each chapter will thus be presented by two teams. Presentations must be made using powerpoint. They must last between 10 and 12 minutes.

Individual report

Students will have to write a report on one of the chapters of \textit{Zombie Economics}. This report must be 3 double-spaced pages (750 words). Students can choose the chapter of their choice \textit{among the chapters that they WERE NOT assigned for class presentation}. Students can also make use of the material suggested in section 4 of the course outline. The deadline is February 9\textsuperscript{th}, in class. Late papers will be penalized by a loss of 25\% per day late.

Homework-essay

The home assignment is based on simulations of a SFC model. The work can be done alone or with one partner. These models are found in E-views form on the website of Gennaro Zezza, as indicated in the Godley and Lavoie book. Simulations can also be done using some other program with which you might be more familiar.

Material about how to perform simulations with E-views is to be found on the course website, or else similar programs can be used. The two files in Virtual campus are called: 6183-Guide Simulation Program for Eviews 4.1.pdf and 6183-Simulation with Eviews.pdf. They were both prepared by previous students. The first guide may provide more information. The files explain how to start from scratch.

Ideally, students should take one of the models of the book (on Zezza’s site), make modifications to it, by modifying some equations, or by introducing new equations and variables. Then they have to perform some experiments on the modified model, by changing one parameter at a time, in some year, showing how the model evolves through time relative to the previous situation. In the essay, you need to explain what you are doing: what model you started from, what changes to it you are making, the justifications to these change, the experiments you are conducting, the parameters you are changing, the results you are getting, showing the graphs of the relevant variables.

It will be acceptable for you to take one of the more complex model and to make experiments that were not attempted in the book, or even replicating existing simulations, but it will not generate as high a mark as if you do modify existing models (as suggested above). I am not looking for a long essay; rather I want you to demonstrate that you know how to handle these models and understand their logic.
COURSE OUTLINE (all dates may change)

INTRODUCTION:

1. Schools of thought and alternative monetary theories (1 week, January 12)


FIRST PART: BASIC AND NEW ISSUES IN MONETARY ECONOMICS

2. Operating procedures at the Bank of Canada (1 week, January 19)

Baumol, Blinder, Lavoie and Seccareccia, Macroeconomics: Principles and Policy, Nelson, 2010, chapters 12 (pp. 274-276) and 13 (pp. 292-300).


3. Operating procedures in the US and elsewhere (1 week, January 26)


Mitlide and Vesterlund, “Steering interest rates in monetary policy – how does it work”, Sveriges


4. **Zombie Economics** (1 week, February 2)

Presentations by students  See some additional material:


**FEBRUARY 9 DEADLINE FOR BOOK REPORT**

5. **The New Consensus model in macro and its Post-Keynesian critique** (1 week, February 9)


6. **Implications of the financial crisis for central bank procedures (ZIRP and QE)** (1 week, February 16)


February 23: Study week

7. The Euro Crisis (1 week, March 1st)


SECOND PART: STOCK-FLOW CONSISTENT PK MODELS
8. An Introduction to Post-Keynesian Stock-Flow Consistent Models (1 week, March 8)


9. Simple Stock-Flow Consistent Models (1 week, March 15)


MID-TERM EXAM: MARCH 22: TENTATIVE DATE

10. Open economies in PK Stock-Flow Consistent Models (2 weeks, March 29 and April 5)


M. Lavoie and J. Zhao, « A study of the diversification of China's foreign reserves in a three-