

**Central Banking  
Econ 235a  
Professor Browne**

Office Hours: Before or after class; e-mail to arrange  
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**Course Overview**

For the past 100 years, and in some cases longer, most countries have looked to central banks to protect their financial systems and moderate fluctuations in prices and output. As the recent financial crisis highlights, the record of central banks in this regard has been mixed. The purpose of this course is to provide an understanding of the purposes and functions of central banks and the challenges they confront. What is a central bank? What is it trying to do and how does it do? How have central banks' activities changed over time – and why? Are central banks really necessary?

We will devote considerable attention to the roles of central banks' in the recent financial crisis and to current debates over the policies that central banks are following in its aftermath. We will consider the degree to which the crisis has changed thinking regarding central banks' responsibilities and capabilities.

**Learning Goals and Outcomes**

Among the topics we will address are the following:

- What are the origins of banking and central banks?
- What are the purposes and functions of central banks?
  - How have these changed over time?
- How are central banks organized?
  - What does “independence” mean for a central bank?
- How do central banks affect the banking system and the economy?
  - What tools do they use?
    - Is communication a policy tool?
- What is the debate over rules versus discretion?
  - What rules might a central bank follow?
    - Should central banks have an inflation target?
- How should we measure inflation?
  - Why is deflation worrisome?
  - Should central banks react to rising asset prices?
- What does “lender of last resort” mean?
  - What is a “run”? Do they still occur?
- What is quantitative easing and why is it controversial?

- What are the lessons of the 2007-8 financial crisis?

At the end of the course, students should understand the goals and functions of central banks and the current policy debates surrounding them.

### **Course description**

The course is a combination of seminar and lecture. The instructor will generally begin the class by providing an overview of key issues and points of debate. The instructor may provide illustrations based on developments in the United States. However, students will contribute actively to the group learning experience through discussion of what they learned from the assigned readings and from becoming an “expert” on a central bank they have selected.

Readings will be assigned for each class. Students are expected (a) to have read these materials in advance and (b) to be ready talk about what they learned. After each class, students will prepare a short essay (2-4 pages single space) addressing the topic assigned for that class. These papers should be submitted before or at the next class. These short papers will account for 40 percent of the grade for the course.

An important part of each class will be learning about developments in central banks in different countries. Each student will select a different central bank to study. Students will become the “experts” on these banks and share their insights with the group in the general discussion. At the end of the course (in lessons 10, 11, or 12) each student will make a 15-minute presentation summarizing his/her analysis of the selected central bank.

### **Pre-requisites**

Students should have a practical understanding of intermediate macroeconomics, including the money supply process, as well as the basics of banking and financial markets (ECON 82b or ECON 202a or equivalent.)

### **Evaluation**

Grades will be based on the short papers prepared each week, class participation and the presentation at the end of the course on their central bank.

### **Grading:**

<b>Short weekly papers</b>	<b>40 percent</b>
<b>Class participation</b>	<b>25 percent</b>
<b>Central bank presentation</b>	<b>35 percent</b>

Issues to be covered in central bank presentations include but are not limited to the following:

Central bank history, governance, functions (especially any regulatory role), monetary policy objectives, monetary policy tools, exchange rate regime, how the country was affected by the 2007-9 crisis and how the central bank responded,

current challenges and debates. In discussing monetary policy objectives and tools, students should indicate where these fit in the rules vs. discretion debate.

Class dates:

September	5	12	19		
October	3	10	17	24	31
November	7	<b>14</b>		<b>28</b>	
December	<b>5</b>	12			

Short papers are assigned after each class except Sep 5 and December 12. These assignments are due before or at the next class.

**Presentations will take place November 14, November 28 and December 5.**

Dates for each student’s presentation will be determined by lot in classes 2 and 3.

**Things you should do**

Attend all classes.

Actively participate in discussions.

Complete all weekly assignments on time. If you have questions about assignments, ask in advance of submission.

Cite others work in your essays and presentation. (You may do so informally, rather than with footnotes, eg. “as Ben Bernanke has written..”)

**Things you should not do**

Collaborate on the weekly essays or final presentation. These are NOT team projects.

Quote others without attribution.

**Disability:** If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me at your earliest opportunity.

**Academic Integrity** is central to the mission of educational excellence at Brandeis. You are expected to be familiar with and to follow the University’s policies on academic integrity (see <http://www.brandeis.edu/studentlife/sdec/ai>). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.

## Course Materials and Readings

**Most of the readings are on the web;** links are provided in the Course Plan.

A recurring reference is

Bank for International Settlements (BIS), *Issues in the Governance of Central Banks, A report from the Central Bank Governance Group*, Chair: Guillermo Ortiz, May 2009

<http://www.bis.org/publ/othp04.pdf>

This will also be of value in preparing presentations on central banks.

BIS Annual Reports are another valuable resource.

<http://www.bis.org/publ/arpdf/ar2011e.htm>

**Readings from three books have been assigned.** These are relatively inexpensive.

Charles Goodhart, *The Evolution of Central Banks*. (1988 MIT Press, Cambridge, MA)

Edwin M. Truman, *Inflation Targeting in the world economy*. (2003 Institute for International Economics, Washington, D.C.)

Lawrence H. White, *The Theory of Monetary Institutions*. (1999 Blackwell Publishers, Malden, MA)

There are a lot of readings, but many of the online readings are short and non-technical. In the case of long or more technical readings, the key sections are usually indicated. You may skip over models and regressions.

With respect to the books, particularly Goodhart, you should focus on the main points rather than read every word.

**The goal in all cases is to extract the main message,** not to absorb all the details.

## **Course Plan and Associated Readings**

### **Class 1 (Sep 5) - Organizational Meeting**

Discuss course format and what is expected of students (readings, papers, class participation, presentations).

Assignment: For next class, pick a central bank (and your 2<sup>nd</sup> and 3<sup>rd</sup> choices) that you will study and about which you will become the class expert. Towards the end of the course (classes 10, 11 and 12) students will give presentations on their central banks.

### **Class 2 (Sep 12) - History of Money and Banking**

Review your former macro text on money multiplier.

OR

look at "Overview: Banks Create Money" Copyright Robert Schenk  
<http://ingrimayne.com/econ/Banking/Overview10ma.html>

White, Lawrence, Chapter 1, esp. pp. 1-14, 18-19; Chapter 2, pp. 37-42, 48-49;  
Chapter 7, pp. 138-142.

Grossman, Richard, "Economic History of Banking," Wesleyan Economic Working  
Papers No.2011-004, June 10, 2011

[http://repec.wesleyan.edu/pdf/rgrossman/2011004\\_grossman.pdf](http://repec.wesleyan.edu/pdf/rgrossman/2011004_grossman.pdf)

Bordo, Michael D., "Gold Standard" Library of Economics and Liberty

<http://www.econlib.org/library/Enc/GoldStandard.html>

Norman, Ben, Rachel Shaw and George Speight, "The history of interbank settlement  
arrangements: exploring central banks' role in the payment system, Bank of England  
Working Paper No. 412 June 2011

[http://www.ecb.int/home/pdf/research/Working\\_Paper\\_412.pdf](http://www.ecb.int/home/pdf/research/Working_Paper_412.pdf)

Skim pages 3-19. Read balance for class 3.

Assignment: For next class, write short paper describing how banks create money.  
Do think government should be involved? Why or why not? What are the pros and  
cons of a gold standard compared to a fiat money system?  
Short means 2-4 single-space pages.

### **Class 3 (Sep 19) - History and Functions of Central Banks**

Bank for International Settlements (BIS), *Issues in the Governance of Central Banks, A report from the Central Bank Governance Group*, Chair: Guillermo Ortiz, May 2009  
<http://www.bis.org/publ/othp04.pdf>  
Chapter 1, pp. 5-16. (Note definition in introduction.)  
Chapter 2, esp. pp. 18-20 and 28-37. (Skim rest.)  
Chapter 6, pp. 103-105

White, Lawrence, Chapter 4.

Norman, Ben, Rachel Shaw and George Speight, "The history of interbank settlement arrangements: exploring central banks' role in the payment system," Bank of England Working Paper No. 412 June 2011  
[http://www.ecb.int/home/pdf/research/Working\\_Paper\\_412.pdf](http://www.ecb.int/home/pdf/research/Working_Paper_412.pdf)  
Read pages 20 on.

Bordo, Michael, "A Brief History of Central Banks", Federal Reserve Bank of Cleveland  
[http://www.clevelandfed.org/research/commentary/2007/12.cfm?WT.oss=bordo&WT.oss\\_r=98](http://www.clevelandfed.org/research/commentary/2007/12.cfm?WT.oss=bordo&WT.oss_r=98)

Goodhart, Charles, *The Evolution of Central Banks*, Chapter 1

**Assignment:** For next class, write a short paper describing your central bank: when created, why created, primary functions, and the degree to which it is independent. Do you think your bank has too many functions, too few or just the right number? Explain your thinking. On your central bank's balance sheet, what are the most important categories of asset; what are the most important liabilities? Has this changed in a major way over the past 5 years?

#### **Class 4 (Oct 3) – Monetary Policy (Objectives and Tools)**

Ortiz, *Issues in Governance*, Chapter 2, esp. pp.18-25,28-33 and Chapter 4, pp.77-78 and 85-90  
<http://www.bis.org/publ/othp04.pdf>

Fischer, Stanley, "Why are Central Banks Pursuing Long-run Price Stability?"  
<http://www.kc.frb.org/Publicat/sympos/1996/pdf/s96fisch.pdf>

Meyer, Laurence H., "Inflation Targets and Inflation Targeting,"  
<http://research.stlouisfed.org/publications/review/01/11/1-14Meyer.pdf>  
First two pages are relevant to Class 4, balance to Class 5.

Cecchetti, Stephen, "Monetary Policy and the Financial Crisis of 2007-2008" April 3, 2008. Pages 6-12.  
<http://fmwww.bc.edu/ec-j/sems2008/Cecchetti.pdf>

Keister, Todd, Antoine Martin and James McAndrews, "Divorcing Money from Monetary Policy" *Economic Policy Review*, September 2008  
<http://www.newyorkfed.org/research/EPR/08v14n2/0809keis.pdf>  
Discussion of paying interest on reserves. Explains how they work in times of stress.

BIS *Communication of monetary policy decisions by central banks: What is revealed and why*. BIS Papers No. 47, May 2009.  
<http://www.bis.org/publ/bppdf/bispap47.pdf>

Blinder, Alan and other, "Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence," March 2008  
<http://www.neber.org/papers/w13932>  
Long but readable. At a minimum, look at pp. 2-17 (focusing on the reasoning, not the models) and pp. 55-58.

BIS Markets Committee, *MC Compendium: Monetary policy frameworks and central bank market operation*, March 2009.  
<http://bis.org/publ/mktc03.pdf>  
Everyone should skim over 2-4 central banks to get a sense of similarities and differences. If your bank is one of those covered in this compendium, you will find it a valuable reference.

Assignment: For next class, write a short essay summarizing your central bank's objectives and key tools for implementing monetary policy. What is the overall objective? If multiple objectives, are they prioritized? Are there specific targets? How is policy implemented? Through market operations (if so, what does it buy/sell) or other means? Assess your bank's transparency.

### **Class 5 (Oct 10) – Monetary Policy (Rules vs. Discretion)**

Buol, Jason L. and Mark D. Vaughan, "Rules vs. Discretion: The Wrong Choice could Open the Floodgates," *The Regional Economist*, Federal Reserve Bank of St. Louis.  
<http://www.stlouisfed.org/publications/re/articles/?id=426>. Conceptual discussion of case for rules.

Meyer, Laurence H., "Inflation Targets and Inflation Targeting,"  
<http://research.stlouisfed.org/publications/review/01/11/1-14Meyer.pdf>  
First two pages are relevant to Class 4, balance to Class 5.

Truman, Edwin M., *Inflation Targeting in the World Economy*. Chapters 1 through 3. Skip the regression analysis.

Masson, Paul, "Anchors for Monetary Policy" in *Central Banks and the Challenge of Development* discusses anchors, particularly inflation targeting, for African countries on pp. 89-104.  
<http://www.bis.org/events/cbcd06.pdf?noframes=1>

Taylor, John "Discretion versus Policy Rules in Practice" in *Carnegie-Rochester Series on Public Policy*, December 1993

<http://www.stanford.edu/~johntayl/Papers/Discretion.PDF>

Influential article. "Taylor rule" is used widely in evaluating monetary policy. Rule is on p.202.

Obstfeld, Maurice and Kenneth Rogoff, "The Mirage of Fixed Exchange Rates"

<http://www.nber.org/papers/w5191.pdf>

Why exchange rates are not a good anchor today. Skim.

**Assignment:** For next class, write a short assessment of the advantages and disadvantages of an inflation-targeting regime in general and for your central bank in particular. If your bank does not use an inflation-targeting approach, why not? Should it? If it does, is performance satisfactory or would another approach be superior?

### **Class 6 (Oct 17) - Inflation**

Hellerstein, Rebecca, "The Impact of Inflation" *Regional Review*

[http://www.bos.frb.org/economic/nerr/rr1997/winter/hell97\\_1.htm](http://www.bos.frb.org/economic/nerr/rr1997/winter/hell97_1.htm).

Shiller, Robert J., "Why Do People Dislike Inflation?"

<http://cowles.econ.yale.edu/P/cd/d11a/d1115.pdf>

Survey of public attitudes towards inflation. Skim. Note strength of opinions about inflation and differences between public and economists.

BIS, Monetary and Economic Department, "Monetary policy and the measurement of inflation: prices, wages and expectations," BIS Papers No. 49, December 2009

<http://www.bis.org/publ/bppdf/bispap49.pdf>

The Cecchetti paper provides an overview of issues for developed as well as emerging market economies. The Moreno paper has lots of data on EMEs and may be useful for your presentations on central banks.

Bullard James, "Measuring Inflation: the Core is Rotten" Speech, May 18, 2011

[http://research.stlouisfed.org/econ/bullard/pdf/Measuring\\_Inflation\\_May\\_18\\_2011\\_FINAL.pdf](http://research.stlouisfed.org/econ/bullard/pdf/Measuring_Inflation_May_18_2011_FINAL.pdf). Arguments for headline vs. core inflation.

Bernanke Ben, "Deflation: Making sure "it" doesn't happen." Speech, November 2002

<http://www.federalreserve.gov/boarddocs/speeches/2002/20021121/default.htm>

Famous speech. Foreshadows events in 2007- crisis.

### **Asset prices**

Bernanke, Ben and Mark Gertler "Monetary Policy and Asset Price Volatility,"

<http://www.kansascityfed.org/publicat/sympos/1999/S99gert.pdf>

Influential paper defining mainstream academic thinking. Skip model. Focus on pp.77-86, especially 78-79.

Mishkin, Frederic, "How should we respond to asset price bubbles?" Speech, May 15, 2008.

<http://www.federalreserve.gov/newsevents/speech/mishkin20080515a.htm>

"Should or can central banks target asset prices?" *The International Economy* Fall 2009

[http://www.international-economy.com/TIE\\_F09\\_AssetPriceSymp.pdf](http://www.international-economy.com/TIE_F09_AssetPriceSymp.pdf)

Collection of opinions from academics, business economists and business journalists. Skim.

Assignment: For next class, briefly summarize the arguments for and against headline and core inflation as the focus for price stability. What measure of inflation does your central bank emphasize? How should asset prices be treated?

### **Class 7 (Oct 24) – Lender of Last Resort**

Goodhart, Charles, *The Evolution of Central Banks*, Chapters 2, 4, 7 esp. pp.96-102, and 8. Skim. Do NOT read word-by-word but focus on the broad arguments and whether the debates over history have implications for banks and central banks today.

And

Bordo, Michael and Anna Schwartz, "Charles Goodhart's Contributions to the History of Monetary Institutions,"

[http://www.nber.org/papers/w8717.pdf?new\\_window=1](http://www.nber.org/papers/w8717.pdf?new_window=1)  
pp. 11-21.

Humphrey, Thomas "Lender of Last Resort: the Concept in History" Federal Reserve Bank of Richmond Economic Review

[http://www.richmondfed.org/publications/research/economic\\_review/1989/pdf/er750202.pdf](http://www.richmondfed.org/publications/research/economic_review/1989/pdf/er750202.pdf)

White, Lawrence, Chapter 4, pp. 71-79

Gorton, Gary, "Questions and Answers about the Financial Crisis,"

<http://regulation2point0.org/wp-content/uploads/downloads/2010/03/Questions-and-Answers-about-the-Financial-Crisis.pdf>

Why the crisis was a bank run.

Cecchetti, Stephen and Piti Disyatat, "Central Bank Tools and Liquidity Shortages"

<http://www.newyorkfed.org/research/epr/10v16n1/1008cecc.pdf>

Paul De Grauwe, "The European Central Bank as lender of last resort" August 2011

<http://www.voxeu.org/index.php?q=node/6884>

### Central banks as regulators

Ortiz, *Issues in Governance*, Chapter 2, Sections 3.2 and 4.2  
Note the varied approaches.

UK shifted responsibility for banking regulation from the Bank of England to a single Financial Services Authority in 1998 but is now shifting responsibility back. The Briault paper summarizes the arguments for the FSA; the Treasury piece discusses the post crisis change.

Briault, Clive, *Revisiting the rationale for a single national financial services regulator*. FSA Occasional paper series No. 16, February 2002

<http://www.fsa.gov.uk/pubs/occpapers/op16.pdf>. See pp.6-9 and 27-31.

HM Treasury *A new approach to financial regulation: judgment, focus and stability*, July 2010

[http://www.hm-treasury.gov.uk/d/consult\\_financial\\_regulation\\_condoc.pdf](http://www.hm-treasury.gov.uk/d/consult_financial_regulation_condoc.pdf).

Skim pp. 3-13.

Assignment: For next class, write short essay on why the banking industry needs a lender of last resort and how central banks play this role. Does your central bank regulate or supervise financial institutions? Express your views – and reasoning- on the desirability of the central bank having (or not) these regulatory and supervisory responsibilities.

### **Class 8 (Oct 31) – Challenges facing Emerging Markets**

The focus of this session is how challenges facing central banks in emerging market countries are different from – and perhaps more difficult than – challenges facing more developed countries.

Mishkin, Frederic S., “Can Inflation Targeting Work in Emerging Market Countries?” Festschrift in Honor of Guillermo A. Calvo April 15-16 2004

<http://www.imf.org/external/np/res/seminars/2004/calvo/pdf/mishki.pdf>

Knight, Malcom, “Central banks and the challenge of development: an overview of a roundtable debate” in BIS *Central Banks and the Challenge of Development*, pp. 11-17, <http://www.bis.org/events/cbcd06.pdf?noframes=1>

Hammond, Gill, Ravi Kanbur, and Eswar Prasad “Monetary Policy Challenges for Emerging Market Economies” Brookings Global Economy and Development Working Paper 36 August 2009

[http://prasad.dyson.cornell.edu/doc/Monetary\\_policy\\_prasad\\_Hammond\\_Kanbur.pdf](http://prasad.dyson.cornell.edu/doc/Monetary_policy_prasad_Hammond_Kanbur.pdf)

Frederic S. Mishkin and Miguel A. Savastano “Monetary Policy Strategies for Emerging Market Countries: Lessons from Latin America” January 2002

<http://cdi.mecon.gov.ar/biblio/docelec/dp3505.pdf>

Focus on the “bottom lines,” rather than the country details – unless one of the countries is your central bank.

Lee, Jang-Yung Lee, “Sterilizing Capital Inflows”

<http://www.imf.org/external/pubs/ft/issues7/index.htm>

Explains why countries may need to sterilize capital movements and the challenges of doing so.

Optional: Ostry, Jonathan and others, “Capital Inflows: The Role of Controls” IMF staff position note, February 2010

<http://www.imf.org/external/pubs/ft/spn/2010/spn1004.pdf>

Figure 1 is a useful illustration of options.

Humpage, Owen F. and Jean M. Mintire “An Introduction to Currency Boards”

<http://www.clevelandfed.org/research/review/1995/95-q2-humpage.pdf>

How currency boards work.

Assignment: For next class, write a short paper on the distinctive challenges facing central banks in EMEs.

### **Class 9 (Nov 7) – Recent Crisis: Causes**

BIS 79<sup>th</sup> Annual Report 2008/2009, Chapter I Rescue, Recovery and Reform pp. 4-15

<http://www.bis.org/publ/arpdf/ar2009e1.pdf> and Chapter II The Global Financial

Crisis. <http://www.bis.org/publ/arpdf/ar2009e2.pdf>

Chapter 1 provides an overview of the crisis; chapter 2 provides a chronology.

Table 1.1 on p.15 highlights key stages and developments in industrial and emerging market countries.

Clarida, Richard, “What has – and has not- been learned about monetary policy in a low inflation environment? A review of the 2000s.

<http://www.bostonfed.org/economic/conf/conf55/papers/Clarida.pdf>

Pages 1-10, especially pp. 2-3 on the pre-crisis consensus. Also p.13 and discussion at the bottom of whether federal funds rate was too low.

Claudio Borio and William White “Whither monetary and financial stability? The implications of evolving policy regimes” BIS Working Papers No. 147, February 2004

<http://www.bis.org/publ/work147.pdf>

Prescient. “Great moderation” was not so moderate in terms of financial cycles. Can skip annex and tables – although charts are interesting.

Olivier Blanchard, “The Crisis: Basic Mechanisms and Appropriate Policies” IMF Working Paper April 2009

<http://economics.mit.edu/files/6312>

Optional: Sheila Bair testimony before the Financial Crisis Inquiry Commission, January 2010

<http://www.fdic.gov/news/news/speeches/chairman/spjan1410.html>

Discussion of developments in U.S. financial system that gave rise to the crisis. Long.

Assignment: For next class, write a short assessment of why central banks failed to prevent the 2007-2009 financial crisis. Going forward, what – if anything - should change to prevent a recurrence? Keep your paper to 3 pages.

### **Class 10 (Nov 14) – Recent Crisis: Response**

**Half of this class is devoted to student presentations on their central banks.**

BIS 79<sup>th</sup> Annual Report 2008/2009, Chapter VI Policy Responses to the crisis

<http://www.bis.org/publ/arpdf/ar2009e6.pdf>

Esp. 91-102.

Look at the interactive depiction of the FRS balance sheet at

[http://www.clevelandfed.org/research/data/credit\\_easing/index.cfm](http://www.clevelandfed.org/research/data/credit_easing/index.cfm)

Play around with it and see how the importance of different strategies changed.

Cecchetti Stephen, “Monetary Policy and the Financial Crisis of 2007-2008.”

<http://fmwww.bc.edu/ec-j/sems2008/Cecchetti.pdf>

Early FRS response pp 18-26.

Blinder, Alan, “Quantitative Easing: Entrance and Exit Strategies”

<http://research.stlouisfed.org/publications/review/10/11/Blinder.pdf>

Discussion of FRS’ use of quantitative easing.

Maurice Obstfeld “Lenders of last resort and global liquidity: Rethinking the system”

[http://siteresources.worldbank.org/WBI/Resources/213798-](http://siteresources.worldbank.org/WBI/Resources/213798-1259968479602/outreach_obstfeld_dec09.pdf)

[1259968479602/outreach\\_obstfeld\\_dec09.pdf](http://siteresources.worldbank.org/WBI/Resources/213798-1259968479602/outreach_obstfeld_dec09.pdf)

International links and swaps.

Michael Dooley “Central Bank responses to financial crisis” BIS papers no. 51

<http://www.bis.org/publ/bppdf/bispap51g.pdf>

A different view.

Assignment: Provide a summary of your central bank’s response to the financial crisis in the period 2007-2009. In summarizing your bank’s response, you should make reference to the economic and financial developments that were taking place at the time and that led them to take these actions. How successful were the bank’s actions? Were unconventional tools used?

## **Class 11 (Nov 28) – Current Debate**

**Half of this class is devoted to student presentations on their central banks.**

BIS Annual Report 2010/11 June 26 2011, Chapter IV “Monetary Policy Challenges Ahead” and Box V.C on Macroprudential policy frameworks in Chapter V

<http://www.bis.org/publ/arpdf/ar2011e.htm>

Hannoun, Herve, “Monetary Policy in the crisis: testing the limits of monetary policy” speech, February 2012, <http://www.bis.org/speeches/sp120216.pdf>

Bean, Charles and others, “Monetary Policy after the Fall,” September 2010.

<http://www.kansascityfed.org/publicat/sympos/2010/bean-paper.pdf>

Focus on the broad questions about monetary policy posed in Sections 3, 4, and 5.

Also, look at the comments of Blinder and Taylor, especially Blinder.

<http://www.kansascityfed.org/publicat/sympos/2010/Blinder-remarks.pdf>

<http://www.kansascityfed.org/publicat/sympos/2010/Taylor-remarks.pdf>

Ueda, Kazuo, “The Bank of Japan’s Experience with Non-traditional Monetary Policy,” October 2010

<http://www.bostonfed.org/economic/conf/conf55/papers/Ueda.pdf>

Policy with zero interest rates. Note classification of strategies (pp. 2-5) and assessment of effectiveness (pp.11-14).

Assignment: For next class, write a short paper on what you think are the key issues/choices facing central bankers today. Focus on identifying the issues and the main sources of contention.

## **Class 12 (Dec 5) – ECB Challenges**

**Half of this class will be devoted to student presentations on their central banks.**

These readings were selected in early summer 2012 and may change as the European situation changes. I will provide an updated reading list.

Bergsten, C. Fred and Jacob Funk Kirkegaard, “the Coming Resolution of the European Crisis” Peterson Institute for International Economics Policy Brief Number PB 12-1, January 2012

<http://www.iie.com/publications/pb/pb12-1.pdf>

Focus on the political origins of the ECB and the tensions between the ECB and state governments.

Boone, Peter and Simon Johnson, “Europe on the Brink” Petersen Institute for International Economics, July 2011

<http://www.iie.com/publications/pb/pb11-13.pdf>

Focus on links between ECB, banks and sovereign countries and the financing of capital flight among Eurozone countries.

PIMCO European Perspectives, "TARGET2: A channel for Europe's Capital Flight"  
<http://www.pimco.com/EN/Insights/Pages/TARGET2-A-Channel-for-Europes-Capital-Flight.aspx#>

Another discussion of how ECB handles capital flight.

Optional: Boone, Peter and Simon Johnson, "The European Crisis Deepens," Petersen Institute for International Economics, January 2012

<http://www.iie.com/publications/pb/pb12-4.pdf>

View of crisis as of winter 2011/2012.

Simon Johnson's blog, "The Baseline Scenario," has periodic updates.

Gros, Daniel, <http://www.project-syndicate.org/commentary/europe-s-misguided-search-for-growth>.

Interesting take on what needs to be done to stimulate growth in Europe

DeGrauwe, Paul, "The European Central Bank as a lender of last resort" August 2011

<http://www.voxeu.org/index.php?q=node/6884>

Assignment: For next class, write a short paper on the lessons that recent experience in Europe provides for Europe itself and for non-European central banks.

### **Class 13 (Dec 12) – Future of Central Banking**

IMF, "Central Banking Lessons from the Crisis"

<http://www.imf.org/external/np/pp/eng/2010/052710.pdf>

BIS Annual Report 2010/11 June 26 2011, Chapter V "Monetary Policy Challenges Ahead" and Box V.C on Macroprudential policy frameworks in Chapter V

<http://www.bis.org/publ/arpdf/ar2011e.htm>

"Perspectives on Inflation targeting, financial stability and the global crisis" BIS

Papers No. 51 March 2010

<http://www.bis.org/publ/bppdf/bispap51a.pdf>

Note the papers by Turner, Corbo and Dooley (again).

Friedman, Benjamin, "Learning from the Crisis: What can Central Banks Do?"

<http://www.rbifirc.org.in/downloads/ConferencePapers/1S%202Friedman%20paper%20for%20February%202010%20RBI%20conference.pdf>

Esp pp. 3-4 and 19-29

Svensson, Lars, "Monetary Policy after the Crisis," November 2011

<http://www.bis.org/review/r111201a.pdf>

Squam Lake Working Group on Financial Regulation, "A Systemic Regulator for Financial Markets," May 2009 on website  
<http://www.Squamlakegroup.org/>

Assignment: Come to class prepared to discuss how central banks should address the challenges of maintaining financial stability.