

ANALYSIS OF MONETARY AND FISCAL POLICY

Course code	GRAE038
Compulsory in the programmes	Financial Economics
Level of studies	Graduate
Number of credits	6 ECTS (36 contact hours + 2 consultation hours, 124 individual work hours)
Course coordinator (title and name)	Assoc. Prof. Dr. Pijus Krūminas pijkru@faculty.ism.lt
Prerequisites	None
Language of instruction	English

THE AIM OF THE COURSE:

The course aims to arm students with analytical tools needed to analyse monetary and fiscal policies, as well as their interactions. The course discusses the concept of policy impact, and the ways to measure it. It then discusses the specifics of monetary and fiscal policies with the focus of analytical tools that allow analysing policy instruments and their effects. The students will have to demonstrate their understanding of the topic through an exam and development of policy briefs based on analytical assessment, showing their acquired critical evaluation skills.

MAPPING OF COURSE LEVEL LEARNING OUTCOMES (OBJECTIVES) WITH DEGREE LEVEL LEARNING OBJECTIVES (See Annex), ASSESMENT AND TEACHING METHODS

Course level learning outcomes (objectives)	Degree level learning objectives (Number of LO)	Assessment methods	Teaching methods
CLO1. Students will be able to critically evaluate fiscal and monetary policy instruments and their application in different contexts.	LO1.1. LO1.2.	Policy brief, final exam	Lectures, seminars, consultations on policy brief development
CLO2. Students will learn to analyse the impact of economic policy and assess and select tools appropriate for the analysis.	LO1.2.	Policy brief, final exam	Lectures, seminars, consultations on policy brief development
CLO3. Students will develop critical skills needed to propose recommendations for economic policy instruments based on analytical assessment.	LO3.1.	Policy brief, final exam	Lectures, seminars, consultations on policy brief development
CLO4. Students will learn to prepare a policy brief critically communicating a selected fiscal or monetary policy instrument of their choice and suggesting recommendations for their improvement.	LO 3.2.	Policy brief	Lectures, seminars, consultations on policy brief development

ACADEMIC HONESTY AND INTEGRITY

The ISM University of Management and Economics Code of Ethics, including cheating and plagiarism are fully applicable and will be strictly enforced in the course. Academic dishonesty, and cheating can and will lead to a report to the ISM Committee

of Ethics. With regard to remote learning, ISM remind students that they are expected to adhere and maintain the same academic honesty and integrity that they would in a classroom setting.

COURSE OUTLINE

Topic	In-class hours	Readings
Introduction to the course. What is policy? What is policy impact? The need for policy intervention - market failure, system failure. Expectations and externalities.	4	Datta-Chaudhuri (1990).
Money and policy. Money supply. State budget and budgetary constraint.	4	Bindseil & Fotia (2021), pp. 1-28. Bernanke (2013). Romer (2019).
Modelling the economy from a policy perspective. IS-LM model. AD-AS model. Problems with IS-LM and AD-AS models and alternatives to them.	4	The CORE Econ Team (2023). Romer (2019).
The scope of fiscal policy. Taxation and tax smoothing. Government spending. Universal basic income.	4	Halkos & Paizanos (2016). Romer (2019)
Understanding fiscal policy. Fiscal multipliers. Fiscal stance. Fiscal sustainability. Debt and debt tolerance.	4	Batini, Eyraud, Forni & Weber (2014)
Conventional monetary policy tools. Short-term interest rates. Operational target monetary policy. Minimum reserves.	4	Bindseil & Fotia (2021), pp. 53-66 Friedman (2004) Mishkin (2004) Romer (2019)
Unconventional monetary policy tools. Rationale. Negative interest rates. Non-conventional credit operations. Outright purchasing. Quantitative easing.	4	Bindseil & Fotia (2021), pp. 67-78.
Interactions between fiscal and monetary policy.	4	Blanchard (2019). Leith & Wren-Lewis (2000).
The politics of economic policy. The impact of political institutions on monetary and fiscal policy. The impact of economic policy on political considerations.	4	Millesi-Ferretti, Perotti & Rostagno (2002).
	Total: 36 hours	
CONSULTATIONS	2	
FINAL EXAM	2	

FINAL GRADE COMPOSITION

Type of assignment	%
<i>Group Components 40%</i>	
Policy brief	40%

<i>Individual Components 60%</i>	
	Final exam 60%
Total:	100

DESCRIPTION AND GRADING CRITERIA OF EACH ASSIGNMENT

Students will work in small groups of 3-4 to develop a policy brief focused on either a fiscal or a monetary policy instrument (40% of the final grade). They will have to consider the nature and aims of the instrument as well as the evidence for it working or not working as intended. The brief will have to include policy recommendations develop on the basis of analytical evidence. The final exam will include short open questions focused on the course material.

RETAKE POLICY

Retake covers the final exam (60%) component of the final grade. Group work (40%) cannot be rewritten / retaken but its evaluation (if positive) is not annulled.

ADDITIONAL REMARKS

None

REQUIRED READINGS

Batini, N., Eyraud, L., Forni, L., & Weber, A. (2014). *Fiscal multipliers: Size, determinants, and use in macroeconomic projections*. International Monetary Fund.

Bernanke, B. S. (2013). A century of US central banking: Goals, frameworks, accountability. *Journal of Economic Perspectives*, 27(4), 3-16.

Bindseil, U., & Fotia, A. (2021). *Introduction to central banking*. Springer Nature.

Blanchard, O. (2019). Public debt and low interest rates. *American Economic Review*, 109(4), 1197-1229.

Datta-Chaudhuri, M. (1990). Market failure and government failure. *Journal of Economic Perspectives*, 4(3), 25-39.

Friedman, B. M. (2004). Why the Federal Reserve Should Not Adopt Inflation Targeting. *International Finance*, 7(1).

Halkos, G. E., & Paizanos, E. A. (2016). Fiscal policy and economic performance: a review. *Journal of Reviews on Global Economics*, 5, 1-15.

Leith, C., & Wren-Lewis, S. (2000). Interactions between monetary and fiscal policy rules. *The Economic Journal*, 110(462), 93-108.

Milesi-Ferretti, G. M., Perotti, R., & Rostagno, M. (2002). Electoral systems and public spending. *The Quarterly Journal of Economics*, 117(2), 609-657.

Mishkin, F. S. (2004). Why the Federal Reserve should adopt inflation targeting. *International Finance*, 7(1), 117-127.

The CORE Econ Team (2023) *The Economy 2.0: Macroeconomics* Open access e-text <https://core-econ.org/the-economy/>

Romer, D. (2019). *Advanced Macroeconomics*. New York : McGraw-Hill Education.

ADDITIONAL READINGS

TBA

(Last updated: 2024 08 05)



ANNEX

DEGREE LEVEL LEARNING OBJECTIVES

Learning objectives for Master of Social Science

Programme:

Financial Economics

Learning Goals	Learning Objectives
Students will be critical thinkers	LO1.1. Students will be able to identify underlying assumptions, limitations of previous research; evaluate managerial solution alternatives.
	LO1.2. Students will become independent learners and develop their own comprehension of scientific theories, models, and concepts.
Students will be socially responsible leaders	LO2.1. Students will be able to evaluate past and current practices in their discipline from an ethical perspective .
Students will be effective communicators	LO3.1. Students will develop and deliver a coherent oral presentation .
	LO3.2. Students will develop and deliver a coherent written research paper .