Economics 313: Money and Banking

Section 001
Spring Semester, 2023
Towson University

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Required Texts and readings:

1. George Selgin, *The Theory of Free Banking,* available online at https://oll.libertyfund.org/title/white-the-theory-of-free-banking-money-supply-under-competitive-note-issue and in a photocopy packet at the university bookstore. You *must* bring hard copy with you for class discussions, so buy it used, print it yourself, or purchase the photocopy (also available used at the bookstore).
2. Lawrence White, *The Theory of Monetary Institutions*
3. George Selgin, *Floored, How a Misguided Fed Experiment Deepened and Prolonged the Great Recession*
4. Articles and book chapters in a photocopy packet available only at the bookstore (both new and used). Again, you must have hard copy in class.
5. Additional readings may be distributed in class or made available through our Blackboard site.

Recommended Reading:

The Wall Street Journal. A great way to keep up with current economic news and to improve your ability to apply economic theory to the real world.

Alt-M blog. Subscribe at http://www.alt-m.org/; read the posts as they come in.

Other Resources -- The Economics Department's Web Site: The economics department has a useful web site. Its internet address is http://www.towson.edu/cbe/departments/economics/. In particular, note the "Research Resources" entry, which contains links to a wide variety of economic data and news sources.

Acknowledgment: This course was initially developed by the late Professor Steven Horwitz of Ball State University when he was at St. Lawrence University. In my fall 2005 run of the course I followed Dr. Horwitz's fall 2000 syllabus closely. In 2007 I continued to use much of what Dr. Horwitz did, but with changes to suit my abilities and inclinations. Since then I have made more changes, but the course is still recognizably Prof. Horwitz's.

Course Description: This is an unusual money and banking course in that it takes seriously proposals for *free banking*—leaving banking and the issuing of money to the free play of market forces, with government's only role being to protect property and enforce contracts.

In free banking, no central bank (such as the Federal Reserve System ["the Fed"] in the U.S.) would have a monopoly on issuing money. Instead, private, competing banks would supply money when and if they saw fit to do so, assuming, of course, that they could get customers to accept the money they issue. (This is the way money is supplied to this day in Scotland; three private banks issue money.) Members of the public would be free to choose the notes offered by different banks just as they are free to choose the checking and savings accounts offered by different banks now. In free banking, then, there would be no such thing as monetary policy: no central bank would manage the money supply. Instead, the money supply would be determined by market forces at work on the banks that choose to supply money. Because in free banking there would be no monetary authority conducting monetary policy, interest rates, which now receive so much attention from the officers of the Fed, would be beyond bureaucratic influence; they would be determined by market forces. Whether this would be a good or a bad thing I am not sure. You will get to consider the question all term.

Though the notion of free banking is surprising and radical today, it is persuasively based in both theory and historical experience, as we shall see.

The purpose of the course is not to promote free banking, however. Rather we will use the strong contrasts between free banking and government-controlled banking to illuminate the basic principles and issues in money and banking. In broad terms, the goal of the course is to help students learn these basic principles and issues so well that you can thereafter understand and participate intelligently in discussions of money and banking matters, including monetary history, monetary policy, banking regulation, interest rates, inflation and deflation. There is always plenty to learn about money and banking; the goal of the course is to give you a sound framework on which to build your continued learning.

Within this high-level goal of the course are more specific goals. We will seek to understand the evolution of money from barter, and money's essential role in economic order and economic progress. We will examine the evolution of banking institutions such as banknotes, checking, and clearinghouses, and study the essential role of the interest rate in coordinating saving and investing. We will examine some episodes of banking history in the U.S., giving particular attention to restrictions on freedom in banking and their consequences. We will look at the theory and practice of central banking. We will finish the course by investigating how the Fed managed the money supply before the financial crisis of 2008, and the very different way in which it has managed it since then.

Again, the overarching goal is for students to understand the fundamentals of money and banking well enough to make their own well-informed judgments about banking regimes and monetary policies.

Online logistics: We will make regular use of Blackboard, a web-based system for facilitating academic course delivery. On Blackboard I will post notes on the readings, paper assignments, and additional reading assignments. The university software should enroll students automatically in a Blackboard site for every course; please check that it actually has enrolled you in the Blackboard site for this course, and explore the system. Note that in "Student Tools" there is a student manual that describes the system.

This syllabus is posted online. You will find a link to it on our Blackboard site and at my website. Any changes to this syllabus, once the term begins, will be posted online rather than handed out on paper. Accordingly, *watch announcements on Blackboard* for any schedule or assignment changes.

Grading Procedures: Grades for this course will be based on students' class participation, frequent short papers, and a cumulative final examination.

Participation	10%
Short papers	45%
Final exam	45%
Total	**100%**

I will determine class participation grades based on your preparation for class and contributions to class discussions.

While I don't directly count attendance in the participation grade, attendance matters. Much of what we learn we will learn in dialogue, discussion, and my demonstrations (using poker chips for money, students playing the roles of banks and bank customers, etc.) in class. To learn from those, students need to be present and up to speed on the readings and previous class discussions. I hope you will learn a lot from talking with each other. You can't do that if you are not in class.

The portion of the class participation grade based on contributions to class discussions I will base not on whether a student's comments or answers are right or wrong—often we won't be able to know that for sure—but on how well they help us all make sense of what we are studying. Asking a thoughtful question about a passage from the reading, for example, or helpfully expanding on a fellow student's insight, is excellent participation. Answering a question with a directly pertinent quotation from the readings is sweet. Read carefully. Underline. Share what you learn. Almost nothing pleases and impresses me more than having a student answer one of my questions by reading an appropriate passage from one of our assigned texts.

The grading scale is as follows:

93 - 100	A	Grades in the **A** range are awarded only for **excellent**
90 - 93	A-	work, work that shows mastery of the subject.
87 - 90	B+	
83 - 87	B	Grades in the **B** range indicate **good** work, work that
80 - 83	B-	shows significant grasp of the subject.
77 - 80	C+	
70 - 77	C	Grades in the **C** range indicate **satisfactory** work.
68 - 70	D+	

60 - 67	D	We all know what D and F mean.
0 - 59	F	

Course Requirements:

Do the reading for each week carefully before class; then we will use class time to discuss what we have read, sort out difficulties, and practice what we have learned.

Preparation: Study all the assigned readings *by class time* on the day for which they are assigned (usually Monday, the first class meeting of the week) and be prepared to write about and discuss those readings. Prepare carefully. Don't just read; study. Underline. Look up unfamiliar words. Use the "Notes on the Readings" (in "Course Documents") that I have posted or will post on our class Blackboard site. These notes will tell you what to study carefully, what just to read, and what you can skim or skip.

This is an upper-level course in an institution of higher learning. Standards of performance will be high. I expect you to study thoroughly, master a lot of information, and demonstrate that mastery in carefully composed and edited writing. We will be covering *a great deal of information.* Keep up with your reading. Get ahead if possible.

Attendance: I expect students to attend every class meeting. If for some good reason you must miss a class, please let me know at your first reasonable convenience (preferably before the class you miss). Strive to attend every class.

Short papers: Most weeks I will assign a short paper (no more than two pages, double-spaced) on what you read and discuss in class. The paper will be due at 6:00 a.m. on the following Saturday, submitted by email to hbaetjer@towson.edu. The goal of this sequence of work is to help you learn well by first reading, then discussing the ideas in the reading, then writing up your reactions to the ideas. The first of these short papers may not be skipped, though it will be graded only if it helps your average (or if you do not do it, in which case it will count as a zero). I will drop your two lowest grades on the rest of these in calculating the course grade. These count 45 percent of the course grade.

One goal of these short papers is to help me check your comprehension of what you are studying. Another goal is to help you improve your ability to express yourself clearly and persuasively. Economist Deirdre McCloskey, one of the best writers in economics, has written that our goal in writing should not be to make it possible for the reader to understand what we mean. It should be to make it *im*possible for the reader *not* to understand what we mean. This course emphasizes CLARITY in both the phrasing and the organization of your ideas. Correct grammar, punctuation, and word usage are expected. There are no quantitative problems or multiple-choice questions in this course; every graded assignment is a writing assignment, so you must write clearly to earn a good grade.

Grading rubric: short papers are graded according to the following criteria:

- **<u>U</u>nderstanding** – How much understanding does the paper show of the reading or topic, by giving a good answer to the question? Note that the paper must answer the question asked.
- **<u>S</u>upport** – How well does the paper support the answer it gives with evidence drawn from the reading? Carefully chosen quotations from a work are usually necessary evidence to back up claims about that work.
- **<u>O</u>rganization** – How helpfully are the ideas of the paper structured? I advise you to begin with an answer to the question, or a clear statement of the idea you mean to defend in the paper. Then present supportive evidence and/or arguments in focused, understandable chunks (e.g. a paragraph for each element).
- **<u>C</u>larity** – How clear and understandable is the wording? Do the sentences make sense? Does the writer say what he or she means? Are words used correctly?
- **<u>C</u>orrectness** – Are grammar, spelling, punctuation, noun-pronoun agreement, subject-verb agreement, and the like correct? (Correctness affects clarity, so these last two overlap some.)

These criteria are about equally important to a paper's grade, because a good college paper will be good in each of these ways, and a bad job in any of these respects can spoil an otherwise good paper. Accordingly, I weigh these criteria in the paper's grade roughly equally, but a poor job in any respect will pull your grade down more than a good job in any respect will pull it up. To receive an A, for example, a paper must be excellent in all five respects. A's will probably be rare. On the other end, a really bad F in any one area can mean an F on the paper as a whole, no matter how good the paper may be in other respects.

I realize this is strict. But it's the kind of feedback for which you are (indirectly) paying in a college course.

Sometimes the grades for each of the four criteria will be shown in the manner of this example:

U – B

S – C+

O – A

C – B

C – D

Sometimes I will not show individual grades for each criterion. For example, a great paper may have just a comment such as, "A – fine job," or just "A"; a poor paper may have only a comment such as, "Not a serious effort – F."

Papers that are too long or not double-spaced may be penalized 10% and required to be rewritten.

<u>Format</u>: Submit your papers as Word documents or PDFs to hbaetjer@towson.edu. Double space; format neatly. Use a normal-sized font.

No names, please: Please never identify yourself by name on any paper. Instead, use your TU ID. That way I will not know who you are as I grade your work. Not knowing helps me avoid unconscious bias and wasting time wondering if I am being fair. Again, please never write your name on your paper. Identify it as yours with your TU ID at the top of the first page, where you would normally put your name. Name the *file* you send me containing that document with your last name and the number of the assignment, like this: "Baetjer 4.docx".

Late or missed assignments: Papers will be accepted late, but they will be penalized 5% per 24-hour period (including weekend days), beginning the moment they are due, unless some extraordinary emergency has caused the lateness. Printer failures, hard drive failures, bad disks, crowded computer labs and the like are all normal occurrences that you should anticipate and allow for. Lateness for reasons such as these may be penalized anyway.

Getting help on your writing: I expect students in the course to write at a college level. Sadly, many students arrive at Towson poorly prepared to do so. If you are one of these, it is probably not your fault, but the fault of those who did not instruct you. Though it is not your fault, however, it is your problem. You are in college now and I expect you to write at a college level. Here are three programs that you can use to improve:

For help with organization and content, use the **CBE Writing Proficiency Program**, located in Stephens Hall 117. (Make an appointment by calling 410-704-4379 or sending an e-mail to cbewriting@towson.edu. The program is available Monday through Friday during the semester. Writing consultants in the program will review your work and provide feedback. See the Program website: https://www.towson.edu/cbe/resources/writing.html.

If you need help with basic grammar and punctuation, you have two options. You may contact the university's **Writing Center** at http://www.towson.edu/writingcenter/. Alternatively, you can find information on specific points of grammar and punctuation online at Towson's **Online Writing Support**: http://webapps.towson.edu/ows/index.asp.

The final exam: The final must be taken on its scheduled date unless you arrange some other time with me, well before the exam date. If some emergency prevents you from taking the exam on schedule, you must present a written explanation of the problem *before* the exam, or *as soon as possible* afterwards, so that we can make alternative arrangements.

Academic Integrity:

This should go without saying, but let us say it anyway: Be honest. Present as your own work only your own work. Your character development is far more important than your grade. Practice integrity in your actions and you will build it in yourself.

Towson University's student academic integrity policy is laid out in the Undergraduate Catalog's Appendix F. It is available online at https://www.towson.edu/about/administration/policies/03-01-00-student-academic-integrity-policy.html.

The danger area for academic dishonesty in this course is plagiarism. Plagiarism is presenting others' words or ideas as your own. Learn what plagiarism is and how to avoid it. There will be many occasions in this course where you can inadvertently fall into plagiarism. Don't. To help you avoid plagiarism, I provide two links to useful discussions of plagiarism offered by other universities. You will find them in "Web Links" on our Blackboard site and in the very first assignment of the term (in Assignments, on Blackboard). Study them until you are certain that you understand what plagiarism is and how to avoid it. To get you started, here's "[a] good rule of thumb for written material taken from another author," from Professor J. Douglas Woods of the University of Toronto: "if it amounts to more than three connected words, give the citation for it." (This used to be at the following now-broken link: http://citd.scar.utoronto.ca/LINB27/introduction/plagiarism.html.)

Your first assignment (find it in Assignments on Blackboard) is to read through the web pages on plagiarism to which I provide you links, then email me a brief note telling me that you have read and understand them or asking for clarification.

I encourage you to work together. All of us learn a lot from talking over ideas with others. Feel free to work on problems together and to have classmates read your written work and make comments on it. BUT any work you submit must be your own. This requirement applies notably to the short papers: talk the questions over with others all you want but let the answers you submit be entirely in your own words. Others' contributions to your thinking should be identified as such in your papers.

- Any written work you submit should be your own words or identified as ideas you got from someone else.
- Don't paraphrase. Use your own wording or quote exactly.
- Any time you use wording other than your own, put it in quotation marks and identify the source (e.g., "As my roommate Michelle explained it to me, 'Inflation is terrible for old people on fixed income'").
- When in doubt, ask me.

I will deal severely with any sloppiness in this respect. Anyone who cheats will fail the course.

Narrative Outline and Schedule of Readings

The readings for each week are given in the table below. Readings from the main textbooks by Selgin and White are indicated by "S" for Selgin and "W" for White. Readings from the photocopy packet of readings are indicated by the last name of the author. Selgin's little book *Floored*, which we will read at the end of the term, is indicated by "Selgin, *Floored*."

In addition to the readings listed below, additional handouts and web readings may be assigned from time to time. If so, I'll announce them on Blackboard. You will see that portions of the narration that follows are quoted from Dr. Steven Horwitz's syllabus, and many of the readings are taken from or based on that syllabus also.

Except on the first day of class, I expect students to have done all reading assigned for the week by the time of the first class meeting that week.

Introduction

We will devote the first week classes to an orientation to the concepts we will encounter in the course. This will involve a lot of sorting out of concepts and drawing terminological distinctions.

Jan. 30	First day, no assignment
Feb. 1	The course syllabus (skim it)
	Plagiarism assignment on Blackboard
	Milton Friedman, chapters from *Money Mischief* (packet)
	S 1 “Overview”
	Henry Hazlitt, “The Mirage of Inflation” (packet)

I. Free Banking and Monetary Equilibrium

In Prof. Horwitz's words:

> "We will begin with money’s role as a social institution and see how it facilitates broader market relationships and social coordination. The cornerstone of this section, and in many ways of the course, is Carl Menger’s theory of the origin of money. Menger argues that money arose as an unintended consequence of barter exchange, rather than as the conscious product of human design. The use of money in exchange has enabled us to form money prices and dramatically increase the productivity and complexity of the economy. Money prices play an important role in economic coordination, and Hayek’s paper explicates this role more fully."

Then we go on to the continuing evolution of money and of banking institutions, combining actual history with Selgin and White's conjectural history of what *would* evolve in a regime of real banking freedom. Suppose governments had left money and banking alone, except to do government's essential job of protecting property and enforcing contracts: What money and banking institutions would have spontaneously evolved?

This section raises the all-important questions of *how much* money would be issued by banks in a mature free banking system and how much money *should* be issued at any time. That is, what should the money supply be? This is the number one question for all central banks; it is what monetary policy is about. Should the money supply be kept stable, or should it grow? If it grows, how fast should it grow? 2-3% per year? At the same rate as real economic growth? The question is immensely important. It affects *interest rates*, and therefore *investment*, and therefore *economic growth*. And it determines (monetary) inflation or deflation.

There is serious disagreement among economists on this issue of what the money supply should be and how fast it should grow.

The free banking advocates we study paint a very positive (rosy?) picture of the money supply in a free banking system. They hold that the money supply would be regulated well—even "correctly"—by the market discipline of competition among free banks, many of whom would issue their own notes just as they now issue their own checking deposits. Market forces would induce banks, in their own self-interest, to supply a quantity of money equal to the quantity of money demanded (at going prices). That is, free banking would tend to maintain *monetary equilibrium*, a notion whose merits we examine in some detail.

At the end of this section of the course we introduce Prof. Roger Garrison's capital-based macroeconomic model to help clarify the connections between the money supply, interest rates, investment, and economic growth.

Feb. 6 The evolution of money and of banking institutions, subject to market forces alone

Carl Menger, "The Theory of Money," chapter VIII of his *Principles of Economics* (packet)

F.A. Hayek, "The Use of Knowledge in Society" (handout; also available online at http://www.econlib.org/library/Essays/hykKnw1.html)

Feb. 13 S 2 "The Evolution of a Free Banking System"

W 1 "The Evolution of Market Monetary Institutions"

Feb. 20 Free banks would be *able* to create (inside) money that they can loan at interest, but how much money *would* they lend? Might they create too much?

W 3 "Money Issue by Unrestricted Banks"

S 3 "Credit Expansion with Constant Money Demand"

Feb. 27 From the macroeconomic perspective of social coordination, how much money *should* banks lend, and at what interest rate? Here we consider the case for ***monetary equilibrium*** as the desideratum of a monetary system.

S 4 "Monetary Equilibrium"

S 5 "Changes in the Demand for Inside Money"

Horwitz, Steven 2013, "An Introduction to U.S. Monetary Policy," pp. 21-27 (packet)

Horwitz 2000, "Monetary equilibrium as an analytical framework," pp. 65-75, 81-2, 96-103 (packet)

S 6 pages 82-85 only

Baetjer, *Free Our Markets* pp. 229-242

Roger Garrison's PowerPoint show, "Hayekian Means-Ends Analysis," through slide 35 (http://www.auburn.edu/~garriro/macro.htm)

II. American Banking History to 1913

In this section of the course we emphasize some of the ways in which state and federal governments in the U.S. have interfered with the freedom of banks and their customers to do business by mutual agreement. The main purposes of this section of the course are for students to understand that there has never been free-market banking in the United States and to understand how governments in the U.S. have prevented it from existing. We study up through the creation of the Federal Reserve System in 1913, in the process seeing some of the historical origins of that central bank.

In Prof. Horwitz's words,

> We will highlight the conflict between the natural forces of order and the chaotic effects of regulatory intervention. These historical and institutional questions are crucial to understanding how past and present banking systems have worked and failed. One of themes we will explore is the degree to which market forces or government interventions are responsible for the problems that have plagued the US banking system throughout history, with an eye toward understanding the plusses and minuses of the Fed.

Mar. 6 S 1 (again) pp. 12-15 "The U.S. Experience"
Horwitz 1992, "Regulatory Chaos and Spontaneous Order Under the National Banking System" (packet)
Horwitz, Steven 2013, "An Introduction to U.S. Monetary Policy": pp. 6-9
Video: "Operation Twist the Truth" George Selgins's talk at Cato's 31st Monetary Conference at 16:55-34:40

III. Central banking in theory

Having studied the rationale for free banking and some of the problems that arose with the decentralized but heavily regulated National Banking System, in this section of the course we look at the origins of the central banking system that followed it and the general rationale for central banking.

We begin with a two-page history of how the Fed succeeded the National Banking System, in response to the bank panics you read about in "Regulatory Chaos and Spontaneous Order in the National Banking System" last time. Then we turn how the Fed operates, with a sympathetic description by the (San Francisco) Fed itself.

The main reading for the week is Prof. White's critical look at the main justifications that have been given for central banking (justifications that most economists agree with, implicitly at least). Among these is the belief that central banks are necessary to prevent bank failures and crises.

Mar. 13 Why have a central bank?
Horwitz, Steven 2013, "An Introduction to U.S. Monetary Policy": pp. 9-10
Federal Reserve Bank of San Francisco 2004, "U.S. Monetary Policy: An Introduction," pp. 1-9 (packet)
W 4 "The Evolution and Rationales of Central Banking"
skim W 5 "Should Government Play a Role in Money?"
W 6 "Should Government Play a Role in Banking?"

IV. More American Banking History: The Fed, Deflation and The Great Depression

The historical record of central banking has been poor. Less than two decades after the Fed took control of the money supply in the United States, the country went into the Great

Depression. Persuasive scholarship puts much of the blame for the Great Depression on the Fed, which did not maintain monetary equilibrium. After a significant increase in the money supply during the 1920s, the Fed allowed a catastrophic decrease in the money supply in the 1930s. This decrease in the money supply resulted in a wrenching deflation.

In Prof. Horwitz's words,

> "We can see the importance of a banking system's ability to maintain monetary *equilibrium* by seeing what happens during monetary *disequilibria*... Deflation is [one] form of monetary disequilibrium and we will explore it both theoretically and through illustrations taken from the Great Depression of the 1930s. Our discussion will show deflation's destructive potential, despite its rarity in real world economies. We will emphasize the interplay between poor monetary policy and wage and price rigidities that can, and did during the Great Depression, turn the minor effects of excess demands for money into major economic catastrophes."

Mar. 27 — Greenfield 1 "Depression" (packet)
Greenfield 2 "Banks" (packet)
Vedder and Galloway, "From New Era to New Deal" (packet)
Recommended: Steven Horwitz, "Hoover and the Great Depression, redux"

V. Inflation

The other, far more common form of monetary disequilibrium is inflation. Most central banks through history have inflated their currencies most of the time, by continually supplying more money (than is demanded at going prices). In Prof. Horwitz's words,

> Here we will discuss the various economic and political aspects of inflation. Our focus will be on the costs inflation imposes on economic systems and how that retards economic growth and socio-political stability.

Apr. 3 — Hazlitt, "The Mirage of Inflation" (again)
Horwitz 2000, ch. 4 "Inflation, the Market Process, and Social Order"

VI. Central Banking Practice – How the Fed Managed the Money Supply Until 2008

For most of the rest of the term we focus on central banking and monetary policy: how modern central banks try to manage the money supply to keep the economy healthy. We distinguish among

- the Fed's ultimate goals – maximum sustainable economic growth and unemployment, and "stable" prices,
- its possible policy targets, including inflation rates, interest rates, unemployment rates, foreign exchange rates, and/or total spending, and
- its tools for monetary policy.

Until 2008, the tools it used were reserve requirements, the discount rate, and open market operations. We'll examine how each of these works along with the pros and cons of using it.

Apr. 10 Multiple deposit creation, the money supply, and monetary policy under central banking, until 2008

Federal Reserve Bank of San Francisco 2004, "U.S. Monetary Policy: An Introduction" (packet).

Horwitz, Steven 2013, "An Introduction to U.S. Monetary Policy," pp. 11-14 (packet)

Selgin, George 2018, *Floored*, Chapter 2, "Prelude: Monetary Control Before the Crisis," pp. 5-10.

Baetjer, Howard, Appendix A from *Free Our Markets* (2013), "How the Fed Alters the Money Supply and Thereby Interest Rates," available in PDF on Blackboard in Course Documents.

Apr. 17 Multiple deposit creation, the money supply, and monetary policy under central banking, until 2008, continued one day

Wikipedia entry on the Taylor Rule: https://en.wikipedia.org/wiki/Taylor_rule

VII. Problems with Monetary Policy; Would No Policy – Free Banking – Work Better?

Here we get into the controversial question of what central banks should "target" in their efforts to manage the money supply. They cannot know precisely the quantity of money the public demands to hold; therefore they cannot know precisely the quantity of money to supply. So what should they use to help them figure out how much money to supply? That is, what should a central bank try to keep steady? Inflation? If so, at what level? Money supply growth? If so, what measure of money supply should it use, and at what rate should it aim to have that measure of money grow? How about interest rates? Should it try to keep them steady? If so, what particular interest rate (e.g. mortgage interest rates? US Treasury bond rates? the rate at which banks lend reserves to each other?) and at what level should the Fed try to keep that particular rate (e.g. 2%, 3%, 6%)?

We'll see that there is no clear answer to these questions; aiming for any of these targets is undesirable in some ways and unlikely to work, either economically or politically. This is what George Selgin calls "the dilemma of central banking." That dilemma seems insoluble. The Fed may simply be unable to create and maintain monetary order. So we are back to the question the course has been asking: would free banking work better?

Apr. 19 and Apr. 24 Would the alternative monetary regime of free banking produce better results?

S 7 "The Dilemma of Central Banking"

S 8 "The Supply of Currency"

S 9 "Stability and Efficiency"

S 10 "Miscellaneous Criticisms of Free Banking"

Horwitz, Steven 2013 "An Introduction to U.S. Monetary Policy," pp. 27-34 (packet)

Recommended: Baetjer, Howard, "Free banking, central banking, and the money supply," pp. 229-242 from *Free Our Markets*, available in hard copy on loan from Dr. Baetjer. These pages summarize how free banking would maintain monetary equilibrium and why central banking cannot. It should be a helpful review of what we have studied so far.

VII. A Quick Look at the Financial Crisis of 2008

Because the Fed's monetary policy methods changed dramatically during the financial crisis 2008, we take one day (all too brief!) to get a taste of the crisis itself and what caused it.

May 1 Assignments to be determined

VIII. Central Banking Practice – How the Fed Has Managed the Money Supply Since 2008, When it Began Paying Interest on Excess Reserves (IOER)

In October 2008, the Fed began paying interest on excess reserves. This changed the whole monetary policy ball game. Our goal for the end of the course is to understand why the Fed (and Congress!) made this change, and what its consequences have been. We will study portions of George Selgin's recent book on the topic, *Floored, How a Misguided Fed Experiment Deepened and Prolonged the Great Recession*.

May 3	Selgin, *Floored*, 1 "Introduction: An Experiment Gone Awry"
and	Selgin, *Floored*, 2 "Prelude: Monetary Control Before the Crisis
May 8	Selgin, *Floored*, 3 "Interest on Bank Reserves"
	Selgin, *Floored*, 4 "The Floor System's Beginnings"

May 15 Catch up and review

Final Exam - Friday, May 19, 10:15 - 12:15 p.m. Please double-check this against [the university calendar] to make sure that I have read it correctly.