

## ECO 301: Money and Banking

Instructor: James Murray

### First Project Paper

**Description:** You will conduct *two* of your own mini-research projects in which you will choose a specific topic; review recent and relevant literature in the field; discuss differences in views or conclusions reached in different papers; examine financial or macroeconomic data that informs the discussion, and provide an evidence-based argument for a particular view point. **Each paper should be approximately 3-5 double-spaced pages in length.**

#### Paper submissions:

- The first paper is due **Friday, November 16, 2018 at 11:59 PM**
- The second paper is due **Friday, December 7, 2018 at 11:59 PM**

Upload your submissions to the appropriate *Canvas* assignment submission folders.

**Audience:** Think of your target audience as intelligent adults with an interest in economics and who have at least some basic knowledge of economics, though perhaps have not completed ECO 301 and do not have a strong background in your particular topic. This includes other college students who have a major or minor in economics and current economics and business instructors.

**Paper components:** The following are important components to your paper. You may find it convenient to organize your paper in the order below, but you may choose any organization that you find most convenient for your work so long as the following components are addressed.

- *Introduction:* Introduce and motivate your research topic, provide relevant background information so that your readers have the information they need to understand your paper and understand why the issue is important.
- *Literature review:* Describe the important literature in this field. Be careful to not make this section sound like a list (this paper does this, then this paper does this, then this paper does this, etc). Let this section tell a story. For example: What are competing ideas in this field? Why do experts disagree on these ideas? What evidence is there in favor or against these ideas? How has knowledge or views in this area evolved? Organize this section around ideas.
- *Data:* Find macroeconomic and/or financial data that helps inform the discussion. Create graphs or tables that effectively communicate the point that you try to make with the data. You may find the data you need at <https://fred.stlouisfed.org>.
- *Argument:* Make an argument for a particular viewpoint or conclusion, and back it up with compelling reasoning and data. This is the most important aspect of your paper. Readers can get background information from reading other papers. People choose to read your paper to see the existing knowledge put into a unique perspective, as a way to see evidence in favor or against a particular conclusion.
- *Conclusion:* Review the question you explored and the answer/argument/conclusion at which you arrived. Take the discussion a step further by admitting drawbacks to your arguments, discussing a path where more research should be done, and/or speculate on the next steps policy makers or other researchers could take given your conclusions.

**Writing Center:** Consider consulting with the UWL Writing Center. The writing center tutors are able to assist with a wide variety of writing assignments. They can assist you at any stage of the writing process (as long as it is not the last minute!), from understanding the assignment, to organizing and revising, to polishing the paper.

- *Location:* Murphy Library Learning Center, Room 256.
- *Web:* <https://www.uwlax.edu/murphy-learning-center/subject/writing-center/>
- *Email:* [writingcenter@uwlax.edu](mailto:writingcenter@uwlax.edu)
- *Book an Appointment with a Tutor:* <https://bookeo.com/uwlwritingcenter>

**Possible paper topics:** There are countless topics that you can explore. Below are some suggestions to help you get started. While I hope you find these ideas useful, all of these need to be narrowed down further to make an appropriate research paper. Feel free to find your own topic outside this list, but first discuss your idea with your instructor.

1. *Quantitative easing:* What has been the effectiveness of monetary policy at the zero lower bound? In 2010 the Federal Reserve lowered its key interest rate, the Federal Funds rate, to between 0% and 0.25%. Unable to lower short-term interest rates like this any further, the Fed has conducted rounds of “quantitative easing,” expanding money supply even further and in some unique and deliberate ways. Explore these actions, the reasoning behind such policies, and argue whether these have been effective.
2. *Negative interest rates:* Following the most recent recession and financial crisis, interest rates in the United States and in many places in the world approached 0%, limiting further traditional monetary policy to stimulate the economy. Some countries have responded by lowering interest rates below zero, so that financial institutions have to instead *pay interest* for the privilege of holding on to reserves.
3. *Monetary policy history:* Investigate monetary policy during a particular episode in the United States or another country’s history. Explore what was the conduct of monetary policy during a particular point in time, such as a financial crisis or recession. For example, what actions did the Federal Reserve take following the “Great Inflation” of the late 1970s? What was the justification or what were the goals for this course of action? Was it effective? What more could have been done? What alternative policy could have been enacted?
4. *Yield curve:* What explains movements in the yield curve? Can the yield curve shed light on problems in the economy? Can the yield curve shed light on the effectiveness of monetary policy? Can the yield curve be an effective tool for forecasting?
5. *Central bank independence:* Many argue that allowing a central bank to operate independently from elected policy makers (while still allowing for long-run oversight) is essential for macroeconomic stability. Discuss the arguments and evidence for and against this proposition.
6. *Monetary policy targets:* Should a central bank be more concerned with inflation targeting or output stabilization? That is, should the central bank concern itself with trying to stabilize macroeconomic downturns, focus primarily on maintaining a low, stable inflation rate, or some combination of the two?
7. *Regulations and oversight of financial institutions:* Should the Central Bank increase/decrease its oversight of the actions of financial institutions in order to reduce individual risky behavior and reduce systemic risk. If so, how so?
8. *Exchange rate defense:* Some country’s central banks actively manage the exchange rate, whether this means keeping the exchange rate fixed with respect to another currency or maintaining a slowly-moving floating peg. There have been many cases of speculative attacks on international currencies, where financial investors suddenly pull financial assets out of the country which results in a sudden and significant depreciation of the currency. A central bank can reverse or counter the depreciation by using its international reserves to buy its own currency, reducing the supply of its own currency and therefore pushing up the equilibrium exchange rate (the equilibrium price of the currency). Pick one or more countries where a speculative attack happened, discuss the episode, discuss the central bank’s response or lack of response, and argue whether the policy was appropriate.
9. *Private and virtual currencies:* There has been recent interest and growth in private virtual currencies such as *Bitcoin*, and there is a history of private currencies that extends centuries into the past. A research project could discuss a particular private currency or category of currency, how creation and circulation of the currency works, what are the benefits and drawbacks of private currencies (including both private user and macroeconomic benefits and consequences), and what are the implications, if any, for monetary policy.
10. *Hyperinflation episodes:* Investigate the macroeconomic history of a hyperinflation episode, such as those experienced in Venezuela in 2018, Zimbabwe in 2008, or Germany during 1914-1923. Hyperinflation is the occurrence of inflation in excess of 50%, sometimes in the millions percent or even larger. It is almost always due to monetary mismanagement by the government, but in response to exceptionally difficult macroeconomic circumstances. An investigation in a hyperinflation episode should include this broader macroeconomic picture.

**Type up your annotated bibliography and submit to the appropriate Canvas folder.**