

**AFRICAN ECONOMIC RESEARCH CONSORTIUM  
THE COLLABORATIVE PHD DEGREE PROGRAMME  
IN ECONOMICS FOR SUB-SAHARAN AFRICA**

**JOINT FACILITY FOR ELECTIVES**



**MONETARY ECONOMICS**

**COURSE OUTLINE**

**(Revised: February, 2017)**



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## 1. Course Objective

The course seeks to develop students' competence and research skills for scholarly analysis of theoretical and empirical issues relating to money, financial system and monetary policy with special reference to African economies.

## 2. Course Structure

The course is structured around three specific issues with emphasis on African economies:

- Monetary theory and the evolution of the debate over the objectives, prospects, and instruments of monetary policy;
- Intermediation theory, financial sector integration, and monetary policy transmission mechanism.
- Money in an open economy; monetary integration, financial regulation.

The Monetary Economics course is subdivided into two parts:

- The first part (**ECON 641: Monetary Economics I**) deals with introductory material and the theory of monetary policy. It is to be covered in 60 hours.
- The second part (**ECON 642: Monetary Economics II**) is devoted to the economics of financial markets and intermediaries, and international Financial System; also to be covered in 60 hours.

## 3. Prerequisites

A good grounding in graduate level Microeconomics, Macroeconomics and Quantitative Methods.

## 4. Grading

As in other courses of the doctoral degree programme, coursework (take-home exercises/papers, class discussions, and in-class tests) will comprise 40 per cent and the final examination 60 per cent of the final grade for each course.

## 5. Recommended Textbooks for Monetary Economics

### Main Texts

1. Capie, F. and G. Wood (eds.) (1996), *Monetary Economics in the 1990s: The Henry Thornton Lectures*, Numbers 9-17.
2. \*Goodhart, C. E. (1995), *The Central Bank and the Financial System*. Cambridge: MIT Press.

3. \*Goodhart, C. (1989), *Money, Information, and Uncertainty*, London: MacMillan (2nd edition).
4. \*Walsh, C. (1998), *Monetary Theory and Policy*, The MIT Press, Cambridge
5. \*Freixas, X. and J.C. Rochet (1998) *The Microeconomics of Banking*. MIT Press (3<sup>rd</sup> Edition).
6. \*Friedman, B. and F. Hahn (1990), *Handbook of Monetary Economics*. North Holland.
7. Champ, B., S. Freeman, and J. Haslag (2011), *Modelling Monetary Economics*. Cambridge University Press.
8. Handa, J. (2000), *Monetary Economics*. London: London: Routledge.
9. Eden, B. (2004), *A Course in Monetary Economics: Sequential Trade, Money, and Uncertainty*. Blackwell Publishers.
10. Caves R.E., J.A. Frankel and R.W. Jones (2007), *World Trade and Payment*. New York; Addison Wesley.

### Supplementary Texts

1. Claassen, E. M. (1996), *Global Monetary Economics*, Oxford University Press
2. Cooley, T. (eds.) (1995), *Frontiers of Business Cycle Research*, Princeton University Press.
3. Romer, D. (2011), *Advanced Macroeconomics*. McGraw-Hill.
4. Leijonhufvud, A. (1968), *On Keynesian Economics and the Economics of Keynes: A Study in Monetary*. Oxford: Oxford University Press.
5. Mankiw, N. G. and D. Romer (eds.) (1991), *New Keynesian Economics, Vol. 1: Imperfect Competition and Sticky Prices*. MIT Press
6. Mankiw, N. G. and D. Romer (eds.) (1991), *New Keynesian Economics, Vol. 2: Coordination Failures and Real Rigidities*. MIT Press.
7. Friedman, Milton (ed.) (1956), *Studies in the Quantity Theory of Money*. Univ. of Chicago Press.

## **DETAILED COURSE OUTLINE**

### **PART I (FIRST SEMESTER)**

## **ECON 641: MONETARY ECONOMICS I (60 HOURS)**

### **MONETARY THEORY AND THE THEORY OF MONETARY POLICY**

#### **1. Introduction (10 Hours)**

##### **1.1 Micro-foundations of Monetary Economics (6 Hours)**

Money and Transactions: Clower's dichotomized budget constraint; 'Shopping Time' model; cash-in-advance (CIA) model; monetary search models; models of money in the utility functions asset price uncertainty and the speculative demand for money; overlapping generations model; buffer-stock models of money holding.

#### **Basic Readings**

1. Howitt, P. (1996), "Cash in Advance, Microfoundations in Retreat", in Vaz, D. and K. Velupillai (eds.) (1996), *Inflation, Institutions and Information: Essays in Honour of Axel Leijonhufvud*, Macmillan Press Ltd.
2. Hess, A. (1995), Portfolio Theory, Transaction Costs, and the Demand for Time Deposits. *Journal of money, Credit and banking* Vol 27 1015-1032
3. Kiyotak, N. and R. Wright (1993), A Search-Theoretic Approach to Monetary Economics, *American Economic Review*, 83, no. 1 (march): 63-77.
4. Trejos, A. and R. Wright (1995), Search, Bargaining, Money and Prices, *Journal of Political Economy*, 103 (1): 118-141.
5. Trejos, A. and R. Wright (1993), Search, Bargaining, Money and Prices: Recent Results and Policy Implications, *Journal of Money, Credit, and Banking*, 25, no. 3, part 2 (August): 558-576.
6. Walsh, C. A. (2010), *Monetary Theory and Policy*, MIT Press, chap 3.
7. Miller, M. and D. Orr (1966), A Model of the Demand for Money by Firms, *Quarterly Journal of Economics*, Vol. 80, no. 3: 413-435.
8. Miller, M. and D. Orr (1968), The Demand for Money by Firms: Extensions of Analytical Results, *The Journal of Finance*, Vol. XXIII, no. 5: 735-759.
9. Sprenkle, C. (1969), The Uselessness of Transactions Demand Models," *Journal of Finance*, 24(5) (December).

10. Laidler, D. (1984), The Buffer Stock Notion in Monetary Economics, *The Economic Journal*, Vol. 94: 17-34.
11. Milbourne, R. (1987), Re-Examining the Buffer-Stock Model of Money, *The Economic Journal*, Vol. 97: 130-142.
12. Muscatelli, V. A. (1988), Alternative Models of Buffer Stock Money: An Empirical Investigation, *Scottish Journal of Political Economy*, Vol. 35, No. 1 (February): 1 – 21.
13. Hicks, J. (1935), A Suggestion for Simplifying the Theory of Money.
14. Friedman, M. (1968), The Role of Monetary Policy”, *American Economic Review*, Vol. LVIII, no. 1: 1-17.
15. White, W. (1981), The Case for and Against “Disequilibrium Money,” *IMF Staff Papers*, Vol. 28, no. 3 (September): 534-572.
16. Goodhart, C. (1989), Money, Information, and Uncertainty, chapter IV.
17. Brunner, K. and A. Meltzer (1971), The Uses of Money: Money in the Theory of an Exchange Economy, *American Economic Review*. Vol(5)
18. Adam, C. (1992), Recent Developments in Econometric Methods: An Application to the Demand for Money in Kenya, *SP 15*, September.
19. Clower R. W. (1967) “A reconsideration of micro-foundation of Monetary theory”, *Western Economic Journal*
20. Laidler, D. (1997) Notes on the micro-foundations of monetary economics. *The Economic Journal*, 107 1213-1223

## **1.2 Controversies in the Theories of Demand for and Supply of Money (4 Hours)**

### **Basic Readings**

1. Havrilesky T. M. and J. T. Boorman, eds. (1980), *Current Issues in Monetary Theory and Policy*. Arlington Heights: AHM Publishing.
2. Goldfield and Sichel in Friedman and Hahn (1998) Ch. 8.
3. McCallum and Goodfield (1989), “Demand for Money: Theoretical Studies,” in *The New Palgrave Dictionary of Economics: Money*, MacMillan Press Ltd.
4. McKinnon (1973), *Money and Capital in Economic Development*. Washington D. C.: The Brookings Institution.
5. Shaw (1973), *Financial Deepening in Economic Development*. Oxford: Oxford University Press.
6. Artis and Lewis (1990) Ch.1 in Bandyopadhyay, T. and S. Ghatak, (1990), *Current Issues in Monetary Economics*, New York: Harvester Wheatsheaf.
7. McCallum, B.T. (1989), *Monetary Economics*, New York: MacMillan. Ch.4,
8. Tobin and Brainard (1963) “Financial Intermediaries and the Effectiveness of Monetary Controls,” *American Economic Review*, May, pp. 383-400.

## 2. Channels of Monetary Policy Transmission (16 Hours)

### 2.1 Review of Classical Transmission Mechanisms (2 Hours)

#### **Basic Readings**

1. Fisher I. (1912), *The Purchasing Power of Money*. New York, MacMillan.
2. Patinkin D. (1956), *Money, interest and prices*. New York, Harpe and Row.
3. Walras L. (1900) “Eléments d’économie politique pure”(Elements of Pure Political Economy), édition commentée et annotée [annotated edition], Economica, Paris, 1988.

### 2.6 Keynesian Channel (3 Hours)

- 2.2.1 Keynes’ criticisms of the classical analysis
- 2.2.2 Keynesian transmission mechanism
  - Hypotheses
  - A critical analysis of the Keynesian transmission channel

#### **Basic Readings\***

1. Baumol, W. (1952), “The transactions demand for cash”, *Quarterly Journal of Economics*, vol. 67, n°4, pp 545-556
2. Clower, R. W. (1967), “A reconsideration of microfoundation of Monetary theory”, *Western Economic Journal*
3. Clower, R. W. (1969), *Monetary Theory Introduction*. Penguin Books
4. Davidson, P. (1972) *Money and the real world*, London, Mac Millan
5. Friedman, B. and Hahn, F. (1990) “*Handbook of monetary economics*” North Holland
6. Hahn, F. H. (1973) *On the foundations of monetary theory, Essay in Modern Economic*, London
7. Keynes, J. M. (1936) “*The general theory of employment, interest and money*”, London, Mac Millan
8. Keynes, J. M. (1930) “*A treatise on money*”, London, Mac Millan
9. Keynes J. M. “*A tract on monetary reform*”
10. Hicks, J. R. (1937), “Mr. Keynes and the ‘classics’: a suggested interpretation”, *Economica*,
11. Patinkin, D. (1956) “*Money, Interest and Price*”, Harper and Row (2<sup>nd</sup> ed., 1965, translated from French, PUF, Paris, 1972)
12. Patinkin, D. (1976) “*Keynes monetary thought*”, Duke University Press
13. Patinkin, D. (1972) “*Money and growth in a Keynesian full employment model*”, Studies in Monetary Economics, New York, Harper and Row

14. Tobin, J. (1956), "The interest elasticity of the transactions demand for cash", *Review of Economics and Statistics*
15. Tobin, J. (1958), "Liquidity preference as behavior towards risk", *Review of Economic Studies*, Vol. 25, pp. 65-86.
16. Tobin, J. (1965) "Money and Economic growth", *Econometrica*, vol 33, pp 671-684
17. Tobin J. (1969), "A general equilibrium approach to monetary policy", *Journal of Money, Credit and Banking*, No. 1
18. Mishkin, F.S. (1997), "Symposium of the monetary transmission mechanism" *Journal of Economic Perspective*, Vol. 9, (4), pp. 3-10.

### **2.3 Monetarist Channel (3 Hours)**

#### **Basic Readings\***

1. Cagan, P. (1956), "The monetary dynamics of hyperinflation", in *Studies in the quantity theory of money*. Chicago University Press.
2. Desai, M. (1982), "Testing Monetarism" in *Testing Economic Theories*. Frances Publishers
3. Friedman, M. (1956), "The quantity theory of Money" in Friedman M. (ed.), *Studies in the quantity theory of Money*, pp.. 3-21
4. Friedman, M. (1968) "The Role of monetary policy", *American Economic Review*, Vol. 58, pp. 1-17.
5. Friedman, M. (1968), "Quantity theory", *International Encyclopaedia of Social Service*.
6. Friedman, M. (1970), "A theoretical framework for monetary analysis", *Journal of Political Economy*, vol. 78, pp. 193-238
7. Friedman, M. (1977), "Inflation and Unemployment: the Nobel Prize Lecture", *Journal of Political Economy*, vol. 85, pp. 541-472
8. Leijonhufvud, A. (1968), *On Keynesian Economics and the Economics of Keynes*. Oxford: Oxford University Press.
9. Mishkin, F.S. (1996). The channels of monetary transmission : lessons for monetary policy. NBER working paper 5464.

### **2.4 New Keynesian (2 Hours)**

#### **Basic Readings\***

1. Benigne P. (2009) New-Keynesian Economics. An AS-AD view. NBER Working Paper Series 14824.
2. Consseas S. (1998), Post Keynesian Monetary Economics. 3<sup>rd</sup> edition. Macmillan Press Ltd.

3. Lavoie M.(2016), Introduction to Post-Keynesian Economics. Palgrave Macmillan.
4. Tobias B, Hamson N.H. , Kwsell P. And Oberg E.(2016). The New Keynesian Transmission Mechanism; A heterogeneous –Agent Perspective. NBER working paper 22418 , Cambridge Massachusetts.
5. Hanasgon G. (2006) . “The transmission mechanism of monetary policy: A critical Review”. In P. Arestis and M. Sawyers, eds. A handbook of Alternative Monetary Economics , Edward Elgar.

## 2.5 Expectations (2 Hours)

### Basic Readings\*

1. Friedman B., Hahn F. (1990) “*Handbook of monetary economics*” North Holland
2. Lucas R. E. (1972) “Expectations and the neutrality of money”, *Journal of Economic Theory* No. 4, pp 103-124
3. Lucas R. E. (1980) “Equilibrium in a pure currency economy”, *Economic Enquiry*, vol. 18, pp 203-220
4. Lucas R. E. and Stockey N. (1983) “Optimal monetary and fiscal policy in a economy without capital”, *Journal of Monetary Economics*, vol. 12, pp 55-93
5. Muth J. F. (1961) “Rational expectations and the theory of price movements”, *Econometrica*, July
6. Phelps E. S. and Taylor J. B. (1985) “Stabilizing powers of monetary policy under rational expectations”, *Journal of Political Economy*, Feb.
7. Sargent J. and Wallace N. (1975) “Rational expectations, the optimal monetary instrument and the optimum supply rule”, *Journal of Political Economy*

## 2.6 The Credit Rationing and Credit Channel (2 Hours)

- 2.6.1 Credit Rationing and Institutional Rigidity
- 2.6.2 The Channel for Bank-Dependent Borrowers
- 2.6.3 The Balance Sheet Channel for Borrowers
- 2.6.4 The Money-Credit Debate

### Basic Readings\*

1. Baltensperger E., Devinney T (1985) “Credit rationing theory: a survey and synthesis”, *Zeitschrift fur die Gesamte Staatswissenschaft*, 141, pp 475-502
2. Jaffe D., Stiglitz “*Credit rationing*” in Friedman B. M. and Hahn F. M. (1990), *Handbook of Monetary Economics*, vol. II, chap 16, North Holland



3. \*Kashyap A.N., Stein J. C. and Wilcox D. W. (1993) “Monetary Policy and Credit Conditions: evidence from the Composition of External Finance”, *American Economic Review*, 83, No. 1, March, pp 78-98
4. \*Stiglitz J. and Weiss A. (1981) “Credit Rationing in markets with imperfect information”, *American Economic Review*, vol. 73, pp 393-410
5. \*Bernanke B. and Gertler M. “Inside the Black Box: the Credit Channel of Monetary Policy Transmission”, *Journal of Economic Perspectives*, Autumn 1995
6. Kashyap A. K., Lamont O. A. and Stein J. C. (1984) “*Credit Conditions and the Cyclical Behavior of Inventories*”, *Quarterly Journal of Economics*, 109, No. 3, August, pp 565-592
7. Kashyap A. N., Stein J. C. (1993) “Monetary Policy and Bank Lending”, *NBER Working Paper No. 4317*, April
8. Peek J. and Rosengren (1995) “Is Bank Lending Important for the Transmission of Monetary Policy? An Overview”, *New England Economic Review, Fed Reserve of Boston*, Nov-Dec, pp 3-10

## 2.7 The Exchange Rate Channel (2 Hours)

### Basic Readings\*

1. Dornbush R. (1976) “ Expectations and exchange rates dynamics”, *Journal of Political Economy*, vol 84, pp 1161-1176
2. Dornbush R., Giovanini A. (1990) “Monetary policy in the open Economy” in Friedman B. M. and Hahn F. M. (1990), *Handbook of Monetary Economics*, vol. II, chap 23, North Holland
3. Fleming M. (1962) “*Domestic financial policy under fixed and under floating exchange rates*”, *IMF Staff Papers*, No. 9, pp 369-379
4. Plihon D. (1992) “*Les taux de change* ” [: *Exchange rates*], in la *Découverte*, “Repères” series, Paris.

## 3. Objectives, Targets and Instruments of Monetary Policy (8 Hours)

### 3.1 Choice of Intermediate Objectives (2 Hours)

- 3.1.1 Objectives of Monetary Policy
- 3.1.2 Intermediate Objectives
- 3.1.3 Choice of Instruments
- 3.1.4 Indicators

### 3.2 Monetary Policy Effectiveness (3 Hours)

- 3.2.1 Central Bank Independence and Monetary Policy Practice
- 3.2.2 Monetary Policy Rule: Monetary Aggregates, Inflation Targeting, Interest Rate
- 3.2.3 Policy Mix and Dynamic Inconsistency

**Basic Readings\***

1. Debelle G. and Fisher S. (1994) "How Independent Should A Central Bank Be?", *Federal Reserve Bank of Boston Conferences Series* No. 38
2. FISHER S. (1996) "Why are Central Bankers Pursuing Long-Run Price Stability?", presented at *The Federal Reserve Bank of Kansas Symposium*, August 29-31
3. Friedman B. M. "Targets and instruments of Monetary Policy" in *Friedman B. M. and Hahn F. M. (1990) Handbook of Monetary Economics*. North Holland
4. Kydland F. and Prescott E. (1977) "Rules rather than Discretion: The Inconsistency of Optimal Plans", *Journal of Political Economy*, vol. 85, pp 473-192
5. MANKIWI Gregory (1994) "Monetary Policy", *N.B.E.R. Studies in Business Cycles*, vol. 29
6. McCallum B. (1988) "Robustness properties of a rule for monetary policy", *Carnegie Rochester Conference Series on Public Policy*, vol. 29, pp 175-203
7. MEEK P. (1982, editor) "Central Banks Views on Monetary Targeting", Papers presented at a Conference held at the *Federal Reserve Bank of New York*
8. Mishkin F. (2000) "What should Central Banks do?", *Federal Reserve Bank of Saint Louis Review*, vol. 82 No. 6, pp 1-13
9. Rogoff K. (1985) "The optimal degree of Commitment to an intermediate monetary target", *Quarterly Journal of Economics*, vol. C, Issue 4, Nov, pp 1169-1189
10. Taylor J. (1993) "Discretion Versus Policy Rules in Practice", *Carnegie Rochester Conference Series on Public Policy*, vol. 39, pp 195-214
11. Walsh C. (1995) "Optimal Contracts for Central Bankers", *The American Economic Review*, vol. 85 No. 1, March, pp 150-167
12. Ben Bernanke and Mishkin (1997) Inflation Targeting: A new framework for monetary policy? *Journal of Economic perspective* (spring 1997)
13. Alan Greenspan (2004) Risk and uncertainty in monetary policy. *American Economic Review* Vol 94 (2) 33-44
14. Lars Svensson (2008) Inflation Targeting *New Plaggrave Dictionary*
15. IMF (2005) Does Inflation targeting work in emerging market? *World Economic outlook*, ch 4.
16. Ricardo Caballero and Arvind Krishnamurthy (2003) Inflation targeting and sudden stops. NBER working paper No. 9599
17. Joshua Aizeman, M. Hutchison and Ilan Noy (2008) Inflation targeting and real exchange rates in emerging markets NBER working paper No. 1456

#### 4. Monetary Policy Transmission in Informal Economy (8 Hours)

##### 4.1 Informal Financial Markets (6 Hours)

- General framework for unofficial markets
- Informal credit market
- Unofficial foreign exchange markets

##### 4.2 Monetary Policy and Informal Financial Markets (2 Hours)

##### **Basic Readings\***

1. Agenor, P. R., Haque N. U. (1996) “Macroeconomic management with informal financial markets”, *International Journal of Finance Economics*, vol. pp 87-101
2. Agenor, P. and Montiel P. (1998) “*Development macroeconomics*”, Princeton, chap 5, sections III to V
3. Coats, W. L. and Khatkhate D. L. (1980) “Money and monetary policy in less development countries”, ed. Penguin, part 2, chap 1
4. Montiel P. (1991) “The transmission for monetary policy in developing countries”, *IMF Staff Papers*, Vol. 38, pp. 83-108.
5. Shankar, Acharya and Srinrisa Madhar (1983), Informal credit markets and black money. Do they frustrate monetary policy? *Economic and Political Weekly*, Vol 18 4 1751-1756

#### 5. Economic Stabilization and Structural Adjustment (12 Hours)

##### 5.1 Models of Stabilization (6 Hours)

- Polak Model
- Flow of Funds Model
- Growth, Poverty Reduction and Macro Stabilization Model

##### 5.2 Financial Liberalization (4 Hours)

- Financial Repression
- Interest Rate Liberalization
- Exchange Rate Liberalization
- Institutional Reforms and Financial Restructuring

##### 5.3 Case studies in financial liberalisation (2 Hours)

##### **Basic Readings\***

1. Ebooue, Chicot (1990) “Les effets macroéconomiques de la répression financière ” [ : Macroeconomic effects of financial repression] *Economie Appliquée* [ : Applied Economics], December
2. Polak ( 1969 )
3. Journal of African Economies (special issue) 1996
4. Kapur, B. (1976) “*Alternative stabilization policies for less Developed Economies*”, *Journal of Political Economy*, vol. 84 pp 777-795
5. EBOUE Chicot (1999) “Macroeconomic policy and a sustainable financial intermediation system”, Cluster meeting of UNDP *African Department Economists*, Maputo, Mozambique, 16 – 18 November. Consultable à partir du site internet du PNUD New York [ : This can be consulted from the UNDP website in New York.]
6. Pinto Morera Emmanuel (1999) “Financial liberalisation and the sequencing of reforms: African countries experiences”, *EDI-World Bank Courses*, African Development Bank, Abidjan, March
7. Roe and Sowa (1997), From Direct to Indirect Monetary Control in Sub-Saharan Africa, *Journal of African Economies*, Vol.6 No. 1, pp.212 -264
8. *Journal of International Development*, 1997 Special Issue of Liberalization of Financial and Foreign Exchange Markets in Africa
9. Fry M. (1995), *Money, Interest and Banking in Developing Countries*, Second Edition. London: John Hopkins University Press.
10. Agenor and Montiel (1998), *Development Macroeconomics*. 2<sup>nd</sup> Edition.
11. World Development Report, 1989
12. Polak, J. (1997), The IMF monetary model at forty. IMF working paper No. 49
13. Polak, J. (1957), Monetary analysis of income formation and payments problems. IMF Staff paper Vol 6 1-50 and also Reprinted in IMF staff paper 1977.

## **6. Money and Financial Innovations (6 Hours)**

### **6.1 Financial Innovation and Prices (4 hours);**

### **6.2 Financial Innovation and Monetary Policy ( 2 hours);**

#### **Basic Readings:**

1. Fischer, B (1970), Banking and Interest Rates in a World Without Money, *Journal of Banking Research*, Autumn.
2. Fama. E. (1980), Banking in the Theory of Finance, *Journal of Monetary Economics*, Vol. 12.
3. Fama (1983), Financial Intermediation and the Price Level Control, *Journal of Monetary Economics*, Vol. 6.
4. Yeager, L. (1983), Stable Money and Free Market Currencies, *Cato Journal*, Vol. 3.

5. Laidler, D. (1972), On Wicksell's Theory of Price Level Dynamics, Manchester School, Vol. 50.
6. Howitt, P. (1996), in Vaz. D. and K. Velupillai (eds.), chap. 10 .
7. Dowd, K. and M. K. Lewis (eds.) (1992), Current Issues in Financial and Monetary Economics, chap. 5 and 7.
8. Leijonhufvud, A. (1967), Keynes and The Keynesians: A Suggested Interpretation, American Economic Review vol 67(2),pp 401-410.



**PART II (SECOND SEMESTER)**

**ECON 642: MONETARY ECONOMICS II (60 HOURS)**

**FINANCIAL MARKETS, FINANCIAL INTERMEDIATION, AND INTERNATIONAL  
MONETARY ECONOMICS**

**7. Financial Contract Theory (12 Hours)**

**7.1 Information Asymmetry and Financial Contracts (3 hours)**

**3.3 The Role and Limits of the Market(2 hours)**

**3.4 Financial Institutions as Producers of Information (2 hours)**

**3.5 Financial Institutions as Producers of Liquid Assets (2 hours)**

**7.5 Financial Crisis (3 hours)**

**Basic Readings**

1. Akerlof, G. (1970) “*The Market for Lemons : Quantitative Uncertainty and the Market Mechanism*”, *Quarterly journal of economics*
2. Bossone B. (2000) “*What makes Banks special? A study of Banking, Finance and Economic Development*”, The World Bank Development Research Group Macroeconomics and Growth, *Policy Research Working Paper* No. 2408, August 2000.
3. Crotty J.(2009), Structural Causes of the Global Financial Crisis. A critical assessment of the ‘new financial architecture’, *Cambridge Journal of Economics*, vol 33 pp 563-580.
4. Diamond, D. (1984) “*Financial intermediation and delegated monitoring*”, *Review of Economic Studies*
5. Diamond, D. and Dybvig J. P. (1983) “*Bank runs deposit insurance liquidity*”, *Journal of Political Economy*
6. Freixas X. and Rochet J. C. (1998) “*Microeconomics of banking*”, Third print, The MIT Press
7. Hart O. (2001). Financial Contracting. *Journal of Literature*, vol(no). 39 , vol 4, pp 1079-1100.
8. Hart O. and B. Holmstrom (2016). Contract Theory, Nobel Prize in Economic Sciences.
9. Stiglitz, J. and A. Weiss (1981) “*Credit Rationing in Markets with Imperfect Information*” *AER* 71(3) p393-410

10. Sung J. (2005), Optimal contracts under Adverse Selection and Moral hazard : A continuous –Time Approach, *The Review of Financial Studies*, vol 18 no,3 pp 1021-1073.

## **8. Financial Regulation with emphasis on money market (8 Hours)**

### **8.1 Theories of Financial Sector Regulation ( 2hours)**

### **8.2 Financial Sector Regulations in Practice (2 hours)**

- Compartmentalization of activities
- Deposit insurance
- Capitalization and reserve ratios
- Interest rate control
- Supervision
- Licensing

### **8.3 Political Economy of Financial Regulation (2 hours)**

1. Mooslechner Peter Helene schuberth and Beat Weber (2006) . **The Political Economy of financial market Regulation, The dynamics of Inclusion and Exclusion.**
2. Girma S. (2005) **Political Economy of Financial Liberalisation, Working paper no 05/12. Department of Economics, University of Leicester , UK.**
3. Andrianaivo M. And C.A. Yartey(2009). **Understanding of the growth of financial markets. IMF working paper 09/182**

### **8.4 African Experience:case studies (2 hours)**

#### **Basic Readings**

1. Arthus, P. and Pollin, J. P. (1990) “ *L’effet de la réglementation et le comportement des banques*” [ : *The effect of regulations and behaviour of banks*] in Fair and Boissieu Edition, “ *Financial Institutions in Europe under new competition*”, Kluwer Academy Publish
2. Barth, J. R. and Al (1999) “ *Financial regulation and performance : Cross-country evidence* ”, The World Bank Development Research Group Macroeconomics and Growth, *Policy Research Working Paper No. 2037*, January 1999
3. Scholtens B. (2000) “ *Financial regulation and financial system, Architecture in Central Europe*”, *Journal of Banking and Finance*, vol. 24, pp 525-553
4. Goodhart, C. E. (1995),*The Central Bank and the Financial System*, pp. 414- 466;

5. Goodhart, C.E. (1989), Money, Information, and Uncertainty, pp. 194-213
6. Kay, J. and J. Vickers (1988), Regulatory Reform in Britain, *Economic Policy*, October. .
7. Downs, A. (1961), In Defense of Majority Voting, *Journal of Political Economy*, 69, (April): 192-9.
8. Stigler, G. J. (1962), The Citizen and the State: Essays on Regulation, (Chicago: University of Chicago Press).
9. Stigler, G. J. (1971), The Theory of Economic Regulation, *Bell Journal of Economics and Management*, Spring, no. 2(1): 1-21.
10. Keeler, T. E. (1984), Theories of Regulation and the Deregulation movement, *Public Choice*, no. 44: 103-45.
11. Laffon, J. (1990), The New Economics of Regulation Ten Years After, *Econometrica*, May, 62: 507-37.
12. Soyibo, A. and F. Adekanye (1992), Financial System Regulation, Deregulation and Savings Mobilisation in Nigeria, *RP 11*, November.

## 9. Financial Development and Economic Growth (12 Hours)

### 9.1.Theory, Stylised Facts, and Empirical Evidence (4 Hours)

### 9.2.Microfinance and Economic Development (4 Hours)

### 9.3.Financial Intermediation and Endogenous Growth (4 Hours)

#### Basic Readings\*

1. Arthus, P. (1983), “*Croissance et fluctuation*” [ : *Growth and fluctuation*], PUF, Part II, chap 2
2. Collier P. (1990), “*Financial system and development in Africa*”, IDE series, World Bank.
3. Demetriades, P. O. and Hussein, K. A. (1996) “*Does financial development cause economic growth? Times series evidence from 16 countries*”, *Journal of Development Economics*, vol. 51, pp 387-441
4. King and Levine (1992) “*Financial, indicator and growth in a cross section*”, *Policy Research Paper* No. 819 World Bank, Washington DC
5. Lelart M. (1990) “*La tontine: pratique informelle d’épargne dans les pays en développement*” [The tontine: informal savings practice in developing countries], John Libbey
6. Levine R. and Al (1999) “*Financial intermediation and growth, causality and causes*”, The World Bank Development Research Group Macroeconomics and Growth, *Policy Research Working Paper* No. 2059, February 1999



7. Levine, R., 1997, "Financial Development and Economic Growth: Views and Agenda," *Journal of Economic Literature*, Vol.35, No. 2, pp. 688-26.
8. Levine, R., 2005, "Finance and Growth: Theory and Evidence", In Aghion, P and Durlauf, S., (eds.), *Handbook of Economic Growth*. Elsevier science, The Netherlands.
9. ThorsteN B. and Al (2000) "*Financial structure and economic development, firm industry and country evidence*", The World Bank Development Research Group Macroeconomics and Growth, *Policy Research Working Paper* No. 2423, August 2000
10. Demirgüç-Kunt, A. and R. Levine (2004), *Financial Structure and Economic Growth: A Cross-country Comparison of Banks, Markets, and Development*. MIT Press.
11. McKinnon, R. (1973), *Money and Capital in Economic Development*. Washington D. C.: The Brookings Institution.
12. Shaw (1973), *Financial Deepening in Economic Development*. Oxford: Oxford University Press.

#### **10. Money and Balance of Payments ( 6 hours)**

##### **10.1. A Monetary Approach to the Balance of Payments and the Exchange Rate**

##### **10.2. A Portfolio Approach to the Exchange Rate Determination.**

- spot, forward and futures foreign exchange markets (definition of concepts and description of the markets, hedging and speculation, role of futures transactions in the foreign exchange market); foreign exchange options (overview, trading in foreign currency options);
- currency risk aversion, risk premium, exchange rate expectations, uncovered interest parity;
- capital flight, capital controls and political risk premium;
- real interest rate parity.

##### **10.3. Monetary Policy and Balance of Payments Equilibrium**

##### **10.4. Political Economy aspects of Money and Balance of Payments**

- International economic policy; public interest vs public choice view of government; international financial institutions and their policies; regulatory issues; incentive to monitor international organizations/agencies; IMF conditionality. The Brady Plan, The Baker Plan, the HIPC Initiative.

#### **Basic Readings**

1. Pilbeam, K. (1998), *International Finance*, Macmillan Press, London, chap. 1, 2, 3, and 4
2. Appleyard, D. R. and J. R. Field (2000), *International Economics*, McGraw-Hill International, Singapore, chap. 20, 21, and 22.
3. \*Salvatore, D. (2001), *International Economics*, John Wiley, New York, chap. 13, 14, 16, and 17.

4. Hallwood, P. and R. MacDonald (2008), *International Money and Finance*, Blackwell, Oxford, chap. 2, 3, 4, and 5.
5. Makin, T. (2001), *International Macroeconomics*, Prentice Hall, chap. 2, 6, 7, and 9.
6. Isard, P. (1985), *Exchange Rates*, Cambridge University Press.
7. Obstfeld, M. and Rogoff, K. (1996), *Foundations of International Macroeconomics*.
8. Rivera-Batiz F. L. and Rivera-Batiz L. A. (1994), *International Finance and Open Economy Macroeconomics*, 2<sup>nd</sup> edition, chap. 4, 5 and 6, 10, 11, 12, 13, 14 and 15.
9. Milton A. Iyoha (1999), *External Debt and Economic Growth in Sub-Saharan African Countries: An Econometric Study*, *RP 90*, March.
10. Joshua E. Greene and Moshin S. Khan (1990), *The African Debt Crisis*, *SP 3*, February.
11. Vaubel, R. (1996), *The Political Economy of International Money and Finance*, in Capie, F. and G. Wood (eds.) (1996), *Monetary Economics in the 1990s: The Henry Thornton Lectures*, Numbers 9-17.
12. Vaubel, R. (1986), 'A Public Choice Approach to International Organisations', *Public Choice*, 51, No. 1: 39-57.
13. Easterly, W. (2001). *The Illusion Quest for Growth*, MIT press
14. Stiglitz, J (2002) *Globalisation and its Discontent*.
15. Ha-joon Chang (2008), *The Bad Samaritans; the mess of free trade and secret history of capitalism*. Bloomsbury TLC, NY.
- Olson (1965), *Collective Action*
16. Obadan M. I. (2013). *Foreign Exchange Markets and Balance of Payment: Elements, Policies and Nigerian experience*. Golmark Press Ltd Abuja.

## 11. Monetary Policy and Global Economy (12 Hours)

- 11.1. Globalization and internationalization of the financial system; International interdependence; Objectives of international monetary policies; the transmission mechanism; International monetary policy coordination and rules of the game (static and dynamic): the case for and feasibility of coordination, attempts at coordination, empirical evidence on the gains from cooperation, monetary policy independence
- 11.2. Monetary Unification (cost-benefit), determination of monetary policy under unification, monetary integration versus monetary stability; Credibility effects of monetary unions, optimum currency area, monetary relations between currency areas; monetary union experiences in Africa and elsewhere (the CFA Franc Zone, and the Common Monetary Area, the European Monetary Union, the East Caribbean Currency Area); Policy instruments.

### Basic Readings

1. Artis, Michael (1989), *International Economic Policy Coordination: Theory and Practice*, *Oxford Review of Economic Policy*, Vol. 5, no. 3 (Autumn): 83-93.
2. H. Schlesinger (1996), *The Conduct of Monetary Policy in an Open Economy*, in Capie, F. and G. Wood (eds.) (1996), *Monetary Economics in the 1990s: The Henry Thornton Lectures*, Numbers 9-17).

3. Caves R.E., J.A. Frankel and R.W. Jones (2007), *World Trade and Payment*. New York; Addison Wesley.
4. M. Mussa (1996), The Triumph of paper Credit, in Capie, F. and G. Wood (eds.) (1996), *Monetary Economics in the 1990s: The Henry Thornton Lectures*, Numbers 9-17).
5. Colander, D. C. and D. Daane (eds.) (1994), *The Art of Monetary Policy*, M. E. Sharpe, New York.
6. Dowd, K. and M. K. Lewis (eds.) (1992), *Current Issues in Financial and Monetary Economics*, MACMILLAN.
7. Claassen, E. M. (1996), *Global Monetary Economics*, Oxford University Press, chap 9.
8. McCallum, B. T. (1999), Recent Developments in Monetary Policy Analysis: The Role of Theory and Evidence, NBER Working Paper 7088.
9. McCallum, B. T. (1996), *International Monetary Economics*, Oxford University Press, chap 12.
10. Goodhart, C. (1989a), The Conduct of Monetary Policy, *The Economic Journal*, 99 June): 293-346.
11. Goodhart (1989b), Money, Information, and Uncertainty, chap. XVII
12. Montiel, P. (1991), The Transmission Mechanism of Monetary Policy in Developing Countries, Vol. 38, No.1 (march): 83-108.
13. Laidler, D. (1978), Money and Money Income: An Essay on the 'Transmission Mechanism', *Journal of Monetary Economics* 4: 151-191.
14. Currie, D. A., Levine, P. and Vidalis, N. (1987), Cooperative and Non-cooperative Rules for Monetary and Fiscal Policy in an Empirical Two-Block Model, in R. Bryant and R. Portes (eds.) *Global Macroeconomics: Policy Conflict and Cooperation* (London, Macmillan).
15. Canzoneri, M. B. and Grey, J. (1985), Monetary Policy Games and the Consequences of Non-cooperative Behavior, *International Economic Review*, vol. 26, no. 3: 542-64.
16. Canzoneri, M. B. and Minford, P. (1989), 'Policy Interdependence: Does Strategic Behavior Pay? An Empirical Investigation Using the Liverpool World Model', in D. R. Hodgman and G. E. Wood (eds.) *Macroeconomic Policy and Economic Interdependence* (London, Macmillan).
17. Currie, D. A. and Levine, P. (1989), The International Coordination of Monetary Policy: A Survey, London Business School, mimeo.
18. Rogoff, K. A. (1985a), Can International Monetary Policy Coordination be Counter-productive?, *Journal of International Economics*, vol. 18: 199-217.
19. K. (1985b), The Optimal Degree of Commitment to an Intermediate Monetary Target, *Quarterly Journal of Economics*, 100 (November): 1169-89.
20. Boughton, J. M (1993), The Economics of the CFA Franc Zone, in Paul R. Masson and Mark P. Taylor (eds.), *Policy Issues in the Operation of Currency Unions*, Cambridge University Press.
21. Dornbusch, R. and A. Giovannini (1996), Monetary Policy in the Open Economy, in *Handbook of Monetary Economics*, Vol. 2, chapter 23.
22. Giavazzi, F. and M Pagano (1988), The Advantages of Tying One's Hands: EMS Discipline and Central Bank Credibility, *European Economic Review*, 32 (June): 1055-82.
23. M'Bet, A. and M. Niamkey (1997), European Economic Integration and the Franc Zone: the Future of the CFA Franc after 1999, Part II, *RP53*, March.
24. M'Bet, A. and M. Niamkey (1993), European Economic Integration and the Franc Zone: the Future of the CFA Franc after 1996, *RP 19*, July.

25. Angelino, I., Kashyap A., MOJON B. and Terlizzese D. “Monetary Transmission in the Euro Area: Where do we stand?”, *BCE, Document de travail* [Working Document] No. 114, January 2002
26. Bordes, Christian, Robert Raymond and Marc-Olivier Strauss-Kahn (1991) “Coordination des politiques monétaires” [Coordination of monetary policies], *Revue d’Economie politique* [Journal of Political Economy] 101 (1), January-February
27. Ciccarelli, M. and Rebucci A. “The transmission Mechanism of European Monetary Policy: Is there Heterogeneity? Is it Changing over tie?”, *FMI, Document de Travail* [IMF Working Document] No. 54, 2002
28. Masson, P. and PATILLO C. (2001) “Monetary Union in West Africa (ECOWAS): Is it desirable and how can it be achieved?”, *Occasional Paper* No. 204, International Monetary Fund
29. Melitz, J. (1988) “Monetary discipline and cooperation in European Monetary System: A synthesis”, in “European Monetary System”, edited by F. Giavazzi, S. Micossi and M. Miller, Cambridge University Press
30. Senbet L. (2003), “Globalization of African Financial markets”, in Aryeetey et al, eds *Asia and Africa in the Global Economy*. United Nations University Press. Tokyo New York, Paris