MONETARY THEORY AND PRACTICE

COURSE OUTLINE

(Revised: June 2020)
PURPOSE OF THE COURSE
The purpose of this course is to enable the student to acquire sufficient knowledge of monetary theory and policy. The course content is designed to ensure that the state of the art of monetary theory is given sufficient exposition, while at the same time introducing sufficient doses of policy and empirical topics with special reference to developing countries, in particular African countries. The course adequately prepares the student for advanced research and practice in the area plus policy analysis and implementation.

COURSE PREREQUISITES
The student must be familiar with Macroeconomics at the undergraduate level.

STRUCTURE OF THE COURSE
The course is divided into Part I and Part II. Part I deals with issues relating to various aspects of monetary theory including the role of money, money demand, money supply, money and inflation, monetary management and central banking. Part II covers the economics of financial institutions and financial intermediation, relationship between financial development and economic growth, money in an open economy, international financial institutions and global economy.

GRADING
As in other courses of the Master 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.

READING LIST
No single textbook will be adequate for the course. A number of basic texts, some of which are substitutes with respect to specific topics, have therefore been suggested. Also references will be made to articles and books.

Basic Texts


**General References**


COURSE CONTENTS AND SELECTED READINGS

PART I

1.1 Introduction: Issues in Monetary Economics (6 hours)


Basic Readings:

Blanchard (1990), in Friedman and Hahn (eds.) (1990), Chapter 15.


Havrilesky and Boorman (1986), Part I, III & IV.


Walsh (2010), chapter 1

Other Selected Readings:

Barro and Fischer (1976), “Recent Developments in Monetary Theory,” Journal of Monetary Economics,


Friedman and Modigliani, pp. 176-181.

1.2  The Demand for Money (16 hours)


**Basic readings:**

Barro (1997), Chapter 3 and 4.
Goldfeld and Sichel (1990), in Friedman and Hahn (eds.) (1990), Chapter 8.
Handa (2009), chapter 4
Keith Bain & Peter Howells chap 5 & 6
McCallum (1989), Chapter 3.
Walsh (2010), Chapter 3.

**Other Selected Readings:**


Barro (1997), Macroeconomics


1.3 The Supply of Money (10 hours)

Basic Readings:

Artis and Lewis (1990) in Bandyopadhyay and Ghatak (1990), Chapter 1.

Branson (1989), Chapter 15


Handa (2009), chapter 10


McCallum (1989), Chapter 4.


Keith Bain & Peter Howells chap 3

Other Selected readings:


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1.4 Money, Prices and Employment (8 hours)


**Basic Readings:**

Agenor (1999), Chapter 7.


McCallum, in Friedman and Hahn (eds) (1990), Chapter 18, pp.963 -1012.

Romer (2006), Chapter 10


**Other Selected Readings:**


1.5 Central Banking and Monetary Policy (20 Hours)

A review of objectives and functions of the Central Bank; Monetary Policy Targets, interest rates target, inflation target and Instruments (Direct and Indirect); Monetary transmission
mechanism of monetary policy; Interest rates and Monetary Policy (Taylor’s Rule); Theories of central bank independence and time consistency of policies; Theoretical modelling of the role of Central Banks and monetary policy: The Three Equation Model of Monetary Policy; Theory of interest Rates: Interest Rate Determination, Theory of Portfolio Choice, the Risk and Term Structure of Interest Rates; Simple Vector Autoregressive (VAR) models for analyzing monetary policy; Empirical studies on Central banking and Monetary Policy with emphasis on Africa.

**Basic Readings:**

Agenor and Montiel (1998) Chapter 6 (Section 5) or Agenor and Montiel (1996), Chapter 5 (Section 5.5).

Agenor, P-R (1999), Chapter 5.


Fischer (1990), pp.1155 -1184

Goodhart (1989), Chapters 14 – 15


Keith Blackburn in Kevin Dowd and Lewis (eds) (1992), Chapter 8

Marquis (1996), Chapters 14 and 18

McCallum (1989), Chapter 11


Roe and Sowa (1997), pp.212 -264

Walsh (1998), Chapter 8-10.
Other Selected Readings:


Branson (1989), Chapter 15


Coats and Khatkhate (1980), Part III (1d, 2a and 2b)


Havrilesky and Boorman, (eds), (1980), Part II & VIII.


1.6  Money in the Open Economy (12 Hours)


Basic Readings:

Agenor (1999), Chapter 6.


Branson (1989), Chapter 17.


Fry (1995), Chapter 3 and 4

Handa (2009).

Obstfeld and Rogoff (1996).


Other Selected Readings:


Coats and Khatkhate (1980), Part III(2c).


Havrilesky and Boorman, (eds), (1976) Part IX


PART II

2.1 Financial Systems and the Economy (12 Hours)


Basic Readings:


Coats and Khatkhate, Part II(1).

Fry (1995), Chapters 2-3, 6 and 8.


Jaffee and Stiglitz (1990), in Friedman, B.M. and F.H. Hahn (eds.), (1990), Chapter 16.

McKinnon (1973).


Shaw (1973).


Other Selected Readings:


### 2.2 Financial Development and Economic Growth (18 Hours)


**Basic Readings:**

Agenor and Montiel (1998), Chapter 18, or Agenor and Montiel (1996), Chapter 15.


Fry (1995), Chapters 1-11


Agenor and Montiel (1998), Chapter 18, or Agenor and Montiel (1996), Chapter 15.


Fry (1995), Chapter 4 and 5.


Other Selected Readings:


Coats and Khatkhate, (1980), Part II(1).


2.3 Money in Growth Models (12 hours)


Handa (2009).


2.4 Global Financial System and Global Economy (8 Hours)


**Basic Readings**


**Selected Readings:**


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2.5 **Financial Regulation and Financial Stability (10 Hours)**

Financial Instability and Financial Crisis; Regulation of Financial Sector; International Financial Regulation (Basel I, II and III Accords); Central Banks and Financial Crisis; Political Economy of Regulation. Value at Risk (VaR) models for controlling risk. Managing international risks (and country risks) including the foreign exchange market and management of currency risks.

**Basic Readings**


Saunders and Cornett (2008), Chapters 8 - 17


**Selected Readings:**


International Monetary Fund (1991), *Macroeconomic Models For Adjustment in Developing Countries*. Washington, D.C.


