

**AFRICAN ECONOMIC RESEARCH CONSORTIUM  
COLLABORATIVE MASTERS DEGREE PROGRAMME  
(CMAP) IN ECONOMICS FOR ANGLOPHONE AFRICA  
(EXCEPT NIGERIA)**

**JOINT FACILITY FOR ELECTIVES**



**MONETARY THEORY AND PRACTICE**

**COURSE OUTLINE**

**(Revised: June, 2020)**



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## **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**

Ahamed, M. M., and S.K. Mallick (2019) Is Financial Inclusion Good for Bank Stability? International Evidence, *Journal of Economic Behavior & Organization*, 157: 403-427.

Agnello, L., S.K. Mallick and R.M. Sousa (2012) Financial Reforms and Income Inequality, *Economics Letters*, 116 (3): 583-587.

Agenor, P. and P.J. Montiel (1998), *Development Macroeconomics*, 2<sup>nd</sup> Edition, Princeton: Princeton University Press, or,

Agenor, P. and P.J. Montiel (1996), *Development Macroeconomics*. Princeton: Princeton University Press.

Branson, W. H. (1989), *Macroeconomic Theory and Policy*. 3<sup>rd</sup> Edition, New York: Harper & Row, Chapters 4 - 11, 14 - 22.

Capie, F., and G. Wods (1996), "Monetary Economics in the 1990s: The Henry Thornton Lectures," No. 9-17.

Champ, B. and S. Freeman (2000), *Modelling Monetary Economics*. Cambridge University Press.

Cover, J. P., and S. K. Mallick (2012), Identifying Sources of Macroeconomic and Exchange Rate Fluctuations in the UK, *Journal of International Money and Finance*, 31 (6): 1627-1648.

Freixas, X. and J.C. Rochet (2005), *The Microeconomics of Banking*. 2<sup>nd</sup> Edition. MIT Press.

Fry, M. (1995), *Money, Interest and Banking in Developing Countries*. 2<sup>nd</sup> Edition. London: John Hopkins University Press.

Goldey, W. and M. Lavoie (2006), *Monetary Economics: An integrated Approach to Credit, Money, Income, Production and Wealth*. Palgrave Macmillan.

Goodhart, C. (1989), *Money, Information, and Uncertainty*. 2<sup>nd</sup> Edition. London: MacMillan.

Granville, B., and S. Mallick (2009) Monetary and Financial Stability in the Euro Area: Procyclicality versus Trade-off, *Journal of International Financial Markets, Institutions & Money*, 19 (4): 662–674.

Hallwood, C.P. and R. MacDonald (2010), *International Money and Finance*. Blackwell Publishing Ltd.

Handa, J. (2009), *Monetary Economics*. London: Routledge.

Havrilesky, T. M. and J. T. Boorman, eds. (1980), *Current Issues in Monetary Theory and Policy*. Arlington Heights: AHM Publishing.

Holtemöller, O., and S. Mallick (2016) Global Food Prices and Monetary Policy in an Emerging Market Economy: The Case of India, *Asian Journal of Economics*, 46: 56-70.

Mallick, S., Mohanty, M.S., Zampolli, F., 2017. Market Volatility, Monetary Policy and the Term Premium. BIS Working Papers No. 606. <http://www.bis.org/publ/work606.pdf>

Mallick, S. K., and R. M. Sousa (2012), Real Effects of Monetary Policy in Large Emerging Economies, *Macroeconomic Dynamics*, 16(S2): 190-212.

Mallick, S. K., and R. M. Sousa (2013) Commodity prices, inflationary pressures, and monetary policy: Evidence from BRICS economies, *Open Economies Review*, 24 (4): 677-694.

- McCallum, B.T. (1989), *Monetary Economics*. New York: Macmillan.
- Mervyn, K., Lewis and P.D. Mizen (2000), *Monetary Economics*. Oxford University Press.
- Mishkin, F. (2007), *The Economics of Money, Banking and Financial Markets*.
- Murshed, S. M. (1997), *Macroeconomics For Open Economies*, London: Dryden.
- Obstfeld and Rogoff (1996), *Foundations of International Macroeconomics*. Cambridge, MA: MIT Press.
- Philip Arestis, Santonu basu & Sushanta Mallick (2005) Financial globalization: the need for a single currency and a global central bank, *Journal of Post Keynesian Economics*, 27:3, 507-531, DOI: 10.1080/01603477.2005.11051444
- Pierce, D.G. and P.J. Tysome (1985), *Monetary Economics: Theories, Evidence and Policy*. Butterworths, London.
- Rafiq, M.S., and S.K. Mallick (2008), The Effect of Monetary Policy on Output in EMU3: A Sign Restriction Approach, *Journal of Macroeconomics*, 30 (4): 1756-1791.
- Walsh, C.E. (2003), *Monetary Theory and Policy*. Cambridge, Mass: The MIT Press.

### **General References**

- Agenor, P. (1999), *Analytical and Policy Issues in Macroeconomic Management: Vols I and II, Readings From the Economics of Adjustment and Growth*. World Bank Institute, New York: Academic Press.
- Arrieta, G.M.G. (1988), "Interest Rates, Savings and Growth in LDCs; An Assessment of Recent Empirical Research," *World Development*, 16, No. 5.
- Attfield, C.L.F., D. Demery and N.W. Duck (1985), *Rational Expectations in Macroeconomics: An Introduction to Theory and Evidence*. Oxford: Basil Blackwell.
- Bandyopadhyay, T. and S. Ghatak, (1990), *Current Issues in Monetary Economics*, New York: Harvester Wheatsheaf.
- Blanchard, O. and S. Fischer (2001), *Lectures in Macroeconomics*. Cambridge: MIT Press, Chapter 4.
- Burstein, M. L. (1986), Modern Monetary Theory. London: Macmillan.
- Chick V. (1977), *The Theory of Monetary Policy*. Oxford: Basil Blackwell.
- Coghlan, R. (1980), *The Theory of Money and Practice*. London: Macmillan.

- Dowd, K. and M.K. Lewis, eds., (1992), *Current Issues in Financial and Monetary Economics*. London: Macmillan.
- Friedman, B. and F. Hahn, eds. (2000), *Handbook of Monetary Economics*. Amsterdam: North-Holland.
- Friedman, Milton (1969), *The Optimum Quantity of Money & Other Essays*. London: Macmillan.
- Frisch (1983), *Theories of Inflation*. Cambridge: Cambridge University Press.
- Fry, M., C. Goodhart and A. Almeida (1996), *Central Banking in developing Countries: Objectives, Activities, and Independence*. London: Routledge.
- Galbis, V. (1977), "Financial Intermediation and Economic Development in Less Developed Countries: A Theoretical Approach", *Journal of Development Studies*, 13, No. 2.
- Galbis, V. (1979), "Money Investment and Growth in Latin America, 1967-1976," *Economic Development and Cultural Change*, 27, No. 3.
- Goodhart C.A.E. (1989), *Money, Information and Uncertainty*. 2<sup>nd</sup> Edition. London: Macmillan.
- Goodhart, C.A.E. (1995), *The Central Bank and the Financial System*. Chapters 16-20.
- Havrilesky, T.M. and J.T. Boorman (1978), *Monetary Macroeconomics*. Arlington Heights: AHM Publishers.
- Hossain, A. and A. Chowdhury (2000), *Monetary and Financial Policies in Developing Countries: Growth and Stabilisation*. London, New York: Rutledge.
- Johnson, H.G. (1978), *Selected Essays in Monetary Economics*. London: George Allen & Unwin.
- Makinen, G.E. (1977), *Money, the Price Level and Interest Rates: An Introduction to Monetary Theory*. Englewood Cliffs, N. J.: Prentice Hall Inc.
- Marquis, M.H. (1996), *Monetary Theory and Policy*. New York: West Publishing Company.
- McCallum, B.T. (1999), "Recent Developments in Monetary Policy Analysis: The Role of Theory and Evidence", NBER, Working Paper No. 7088.
- Milner, C. and A.J. Rayner (1992), *Policy Adjustment in Africa*. London: Macmillan.
- Montiel, P. (1996), "Financial Policies and Economic Growth; Theory, Evidence and Country Specific Examples from Sub-Saharan Africa," *Journal of African Economies*, AERC Supplement, Vol.5, No. 3, pp. 65-98.

- Nagatani, Z. (1978), *Monetary Theory*. Amsterdam: North-Holland.
- NBER (1999), "Monetary Policy Rules", *NBER-Business Cycles Series*, Vol. 31, The University of Chicago Press.
- Pierce, D.G. and D.M. Shaw (1974), *Monetary Economics: Theories, Evidence and Policy*. London: Butterworths.
- 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.
- Romer, D (2006), *Advanced Macroeconomics*, 3<sup>rd</sup> Edition. McGraw-Hill
- Saunders, A. and Cornett, M.M. (2008), *Financial Institutions Management: A Risk Management Approach*, 6<sup>th</sup> Edition, McGraw-Hill
- Salvatore, D. (2015), *International Economics*. 12<sup>th</sup> Edition. New York: Macmillan, Chapters 15-20.
- Stevenson, A.V., Muscatelli and M. Gregory (1988), *Macroeconomic Theory and Stabilization Policy*. Oxford: Philip Allan Publishers Ltd.
- Stiglitz, J. and A. Weiss (1981), "Credit Rationing in Markets with Imperfect Information", *American Economic Review*, 71, No. 3, pp. 393-410.
- Teigen, L. (ed.) (1978), *Readings in Money, National Income and Stabilization Policy*. Richard D. Irwin Inc.
- Visser, H. (1991), *Modern Monetary Theory: A Critical Survey of Recent Developments*. Aldersho: Edward Elgar.

## COURSE CONTENTS AND SELECTED READINGS

### PART I

#### 1.1 Introduction: Issues in Monetary Economics (6 hours)

Money: Functions and Historical Evolution. The Role of Money in the Macroeconomy. Changing Paradigms in Monetary Theory.

#### **Basic Readings:**

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

Gowland, D . (1991), *Money , Inflation and Unemployment*. 2<sup>nd</sup> Edition. Harvester Wheatsheaf.

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

Jaffee and Stiglitz in Friedman & Hahn (eds) (1980), Chapter 16.

Handa, J. (2009), *Monetary Economics*. London:3<sup>rd</sup> edition Routledge.

Snowdon, B. And H.R. Vane (2005), *Modern Macroeconomics: Its Origins, Development and Current State*. Edward Elgar.

Walsh (2010), chapter 1

#### **Other Selected Readings:**

Barro and Fischer (1976), "Recent Developments in Monetary Theory," *Journal of Monetary Economics*,

Brainard, W.C. and R.N. Cooper (1975), "Empirical Monetary Macroeconomics: What Have We Learned in the Last 25 Years?," *The American Economic Review* (Papers and Proceedings of the Eighty-seventh Annual Meeting of the American Economic Association), Vol. 65, No. 2, pp. 167-175.

Fisher (1975), "Recent Developments in Monetary Theory," *American Economic Review*, May, pp. 157-166.

Friedman and Modigliani, pp. 176-181.

Johnson, H.G. (1974), "Major Issues in Monetary Economics," *Oxford Economic Papers* (New Series), 26, No. 2, pp. 212-225.

## 1.2 The Demand for Money (16 hours)

Classical and Keynes' Theories of the Demand for Money. Extensions of Keynes' Approach (Baumol and Tobin-Markowitz). Friedman's Restatement of the Quantity Theory of Money. Microfoundations of Money: The Representative Agents (Households and Firms). The Demand for Money *vis- a- viz* the Demand for other Commodities. Introduction to: Shopping-Time Models, Cash-in-Advance Models (Clower Constraint), and Overlapping Generation Model. Money in the utility functions. Currency Substitution. Empirical Studies of the Demand for Money with emphasis on Africa.

### Basic readings:

Barro (1997) , Chapter 3 and 4.

Blanchard and Fisher (1989), Chapter 4.

Branson (1989), Chapter 14.

Goldfeld and Sichel (1990), in Friedman and Hahn (eds.) (1990), Chapter 8.

Handa (2009), chapter 4

Keith Bain & Peter Howells chap 5 & 6

Laidler (1993), *The Demand for Money: Theories and Evidence*. 4<sup>th</sup> Edition, New York: Harper and Row.

McCallum (1989), Chapter 3.

Visser (1991), Chapters 4 – 6.

Walsh (2010), Chapter 3.

### Other Selected Readings:

Adam, C. (1999), “Financial Liberalisation and Currency Demand in Zambia”, *Journal of African Economies*, Vol. 8, pp. 268-306.

Adam, C. (1992), “On the Dynamic Specification of Money Demand in Kenya”, *Journal of African Economies*, Vol 1, No. 2.

Atta, J.K. and J. Anyangah (1997), “Dynamic Specification of the Demand for Money in Botswana”, *African Journal of Economic Policy*, Vol. 4, No. 2, pp. 1-27.

Barro (1997), Macroeconomics



Baumol, W.J. (1952), "The Transactions Demand for Cash: An Inventory Theoretic Approach," *Quarterly Journal of Economics*, Vol. 66.

Fielding, David, "Money Demand in Four African Countries", *Journal of Economic Studies*, Vol. 21, pp. 3-37.

Friedman, M. (1956), "The Quantity Theory of Money: a Restatement," in Friedman (ed.), *Studies in the Quantity Theory of Money*. University of Chicago Press.

Goldfeld (1989) "Demand for Money: Empirical Studies," in *The New Palgrave Dictionary of Economics: Money*, MacMillan Press Ltd.

Judd, P. and J. L. Scadding (1982), "The search for stable money demand function: A survey of the post-1973 literature," *Journal of Economic Literature*, 20, pp. 993-1023.

Laidler (1985), *The Demand for Money: Theories and Evidence*. 3<sup>rd</sup> Edition, New York: Harper and Row.

Lorie (1980), "Another Look at Liquidity Preference," *Quarterly Journal of Economics*, February.

McCallum and Goodfield (1989), "Demand for Money: Theoretical Studies," in *The New Palgrave Dictionary of Economics: Money*. MacMillan Press Ltd.

Miller and Orr (1966), "A Model of the Demand for Money by Firms," *Quarterly Journal of Economics*, August.

Serletis, A. (2007), *The Demand for Money: Theroretical and Empirical Approaches*. 2<sup>nd</sup> Edition. Springer.

Thompson, N. (1993), *Portfolio Theory and the Demand for Money*. Macmillan.

Tobin, J. (1956), "The Interest-Elasticity of Transactions Demand for Cash," *Review of Economics and Statistics*.

Tobin, J. (1958), "Liquidity Preference as Behaviour Towards Risk," *Review of Economic Studies*, p. 65.

Marco A. Pinon-Farah (1998) demand for Mozambique, structural break. IMF working 98/157.

### **1.3 The Supply of Money (10 hours)**

Money Supply/Stock (including the effects of Financial Innovations).. Endogenous Money Supply: Credit Creation Process, The Monetary Base, Flow of Funds Approach, and Fiscal Balance and the Money Supply Process. Empirical Studies of Money Supply.

#### **Basic Readings:**

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

Branson (1989), Chapter 15

Brunner and Meltzer, in Friedman and Hahn (eds.) (1990) Chapter 9.

Handa (2009), chapter 10

Hubbard, R.G. (2008), *Money, the Financial System, and the Economy*. 6<sup>th</sup> Edition. Pearson, Addison Wesley.

McCallum (1989), Chapter 4.

Mishkin, F. S. (2015), *The Economics of Money, Banking and Financial Markets*. 11<sup>th</sup> Edition. Boston: Addison Wesley Longman, Inc., chap. 4 and 6

Keith Bain & Peter Howells chap 3

**Other Selected readings:**

Bhatia, R.J. (1971), "Factors Influencing Money Supply in BCEAO Countries," *IMF Staff Papers*, Vol. 18, No 2.

Bolnick, B. (1975), "A Note on Behaviour of the Proximate Determinants of Money Supply in Kenya," *Eastern Africa Economic Review*, Vol. 7.

Brunner, K. (1989), "Money Supply," in *The New Palgrave Dictionary of Economics: Money*. MacMillan Press Ltd.

Brunner, K. (1961), "A Schema for the Supply Theory of Money," *International Economic Review*, 2, No. 1, pp. 79-109.

Burger, A. (1971), *The Money Supply Process*. Belmont: Wadsworth Publishing Company.

Farley, D.E. and T.D. Simpson (1979), Graduated Reserve Requirements and Monetary Control," *Journal of Finance*, 34, No. 4, pp. 999-1012.

Friedman, M. (1970), "A Theoretical Framework for Monetary Analysis," *Journal of Political Economy*, March/ April 1970.

Friedman, M. (1972), "Symposium on Friedman's Theoretical Framework," *Journal of Political Economy*, September/ October.

Kaminow, I. (1977), "Required Reserve ratios, Policy Instruments and Money Stock Control," *Journal of Monetary Economics*, 3, No. 4, pp. 389-408.

Knobel, A. (1977), "The Demand for Reserves by Commercial Banks," *Journal of*

*Money Credit and Banking*, 9, No. 1, pp. 32-47.

Marquius, M. (1996), Chapter 3.

Newlyn, W.T. (1964) "The Supply of Money and its Control," *Economic Journal*, June.

Sherman, L.F., C.M. Sprenkle and Bryan E. Stanhouse (1979), "Reserve Requirements and Control of the Money Supply," *Journal of Money, Credit and Banking*, 11, No. 4, pp. 486-493.

Tobin, J. and W.C. Brainard (1963), "Financial Intermediaries and the Effectiveness of Monetary Controls," *American Economic Review*, 53, No. 2, pp. 383-400.

#### 1.4 Money, Prices and Employment (8 hours)

Money and theories of inflation. Monetary control and inflation. Money growth and business cycles, expectations of the real business cycle and expected inflation. Money and Employment.

##### **Basic Readings:**

Agenor (1999), Chapter 7.

Agenor and Montiel (1998), Chapters 10 & 11 or Agenor and Montiel (1996), Chapters 9 and 10.

Branson (1989), Chapters 19-20.

McCallum (1989), Chapters 6-9.

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

Romer (2006), Chapter 10

Vander, M.E. and S. Mollentze (2009), *Monetary Economics in South Africa*. 1<sup>st</sup> Edition

##### **Other Selected Readings:**

Anand and Wijnbergen (1989), "Inflation and the Financing of Government Expenditure: An Introductory Analysis with an application to Turkey," *The World Bank Economic Review*, Vol. 3, No 1.

Atta, J.K., K. Jefferies and I. Mannathoko, (1996), "Small Country Experiences with Exchange Rates and Inflation: The Case of Botswana," *Journal of African Economies*, Vol.5, No. 2, pp. 293-326.

Buffie E.F. (2003), "Tight Money, Real Interest Rates, and Inflation in SSA", *IMF Staff Papers*, Vol. 50, No.1.

Dornbusch and Fischer (1993), "Moderate Inflation," *The World Bank Economic Review*, Vol 7, No 1.

Fischer and Modigliani (1978), "Towards an Understanding of the Real Effects and Costs of Inflation," *Weltwirtschaftliches*, No. 114.

Friedman (1968), "A Role of Monetary Policy," *American Economic Review*, March.

Gordon (1976), "Recent Developments in the Theory of Inflation and Unemployment," *Journal of Monetary Economics*, pp. 185.

Gree, J. (1996), "Inflation Targeting: Theory and Policy Implications," *IMF Staff Papers*, 43, No. 4, pp. 779-795.

Laidler and Parkin (1975), "Inflation: A Survey," *Economic Journal*, December.

London (1989), "Money, Inflation and Adjustment Policy in Africa: Some Further Evidence," *African Development Review*, Vol. 1, No 1.

Lucas (1973), "Some International Evidence of Output-Inflation Tradeoffs," *American Economic Review*, pp. 326.

Magnus, S. (2006), "Excess liquidity and Effectiveness of Monetary Policy: Evidence from SSA," IMF Working Paper, WP/06/115.

Muth (1961), "Rational Expectations and the Theory of Price Movements," *Econometrica*,

Nugent and Glezokoz (1982), "Phillips Curve in Developing Countries: The Latin American Case," *Economic Development and Cultural Change*,

Santomero and Seater (1978), "The Inflation - Unemployment Trade-off: A Critique of the Literature," *Journal of Economic Literature*, June.

Solimano (1989), "Inflation and the Costs of Stabilization: Historical and Recent Experiences and Policy Lessons," *The World Bank Research Observer*, Vol. 5, No 2.

Tegene (1989), "The Monetarist Explanation of Inflation: the Experience of Six African Countries," *Journal of Economic Studies*, Vol. 16, No 1.

### **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.

AERC (2009), *Papers in the issue of the African Economic Research Consortium: Plenary Session*, Vol. 20, Supplement 2.

Callier, P. (1991), *Financial Systems and Development in Africa*. Economic Development Institute, World Bank, Washington D.C.

Faure A.P. (2016). *Central Banking and Monetary Policy : An introduction*.

Fischer (1990), pp.1155 -1184

Goodhart (1989), Chapters 14 – 15

Honohan, P. (2006), “Household Financial Assets in the Process of Development,” The World Bank and CEPR, WPS 3965.

Honohan, P. (2004), “*Financial Development, Growth, and Poverty: How Close are the Links?*,” World Bank, WPS 3203.

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

Marquis (1996), Chapters 14 and 18

McCallllum (1989), Chapter 11

Mishkin, F. S. (2015), *The Economics of Money, Banking and Financial Markets*. 11<sup>th</sup> Edition. Boston: Addison Wesley Longman, Inc., chap. 2.

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

Walsh (1998), Chapter 8-10.

**Other Selected Readings:**

Bernanke, B., and M. Gertler (1995), “Inside the Black box: the credit channel of monetary policy transmission”, *Journal of Economic Perspectives*, Vol.9, pp. 27-48.

Bernanke, B.S., and I. Mihov (1998), “Measuring Monetary Policy”, *Quarterly Journal of Economics*, Vol. 113, pp. 869-902.

Blackburn and Christensen (1989), "Monetary Policy and Policy Credibility: Theories and Evidence," *Journal of Economic Literature*, Vol. 27, pp. 1-45.

Blinder, A. (1998), *Central Banking in Theory and Practice*. Cambridge, Mass.: MIT Press.

Branson (1989), Chapter 15

Brownbridge, M. and C. Harvey (1998), *Banking in Africa*. Oxford: James Curry, pp.126-140.

Buffie, E.F. *et al.* (2006), "Riding the Wave: Monetary Responses to Aid Surges in Low-Income Countries", CSAE WPS/2006-04.

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

Cukierman *et al.* (1993), "Measuring the Independence of Central Banks and its Effects on Policy Outcomes," *The World Bank Research Review*, Vol. 6, No. 3.

Friedman, M. (1983) "Monetary Policy," *Journal of Money, Credit and Banking*, February.

Fry, N., C. Goodhart and A. Almeida (1996), *Central Banking in Developing Countries: Objectives, Activities and Independence*. London: Routledge.

Goodhart (1989), "Central Banking," in *The New Palgrave Dictionary of Economics: Money*. Macmillan.

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

Lindsey and Wallich (1989), "Monetary Policy," in *The New Palgrave Dictionary of Economics: Money*. Macmillan.

McCallum, B.T. (1995), "Two fallacies concerning Central Bank Independence", *American Economic Review*, 85, No. 2, pp. 207-11.

NBER (1999), "Monetary Policy Rules", *NBER-Business Cycles Series*, Vol. 31, The University of Chicago Press.

Page, S. (ed.) (1993), *Monetary Policy in Developing Countries*. London: Rutledge.

## **1.6 Money in the Open Economy (12 Hours)**

Short run and long run determination of exchange rate; Portfolio Asset Approach; Balance of Payments (BOP) Determination Approaches. Money and BOP Adjustment. Monetary Policy under Alternative Exchange Rate Regimes. The Policy Mix. Policy Coordination.

### **Basic Readings:**

Agenor (1999), Chapter 6.

Agenor and Montiel (1998) Chapters 7 & 8, or Agenor and Montiel (1996), Chapters 6 & 7.

Branson (1989), Chapter 17.

Dornboush and Giovannini (1990) in Friedman, B.M. and F.H. Hahn (eds.), (1990), Chapter 23.

Fry (1995), Chapter 3 and 4

Handa (2009).

Obstfeld and Rogoff (1996).

Salvatore, D. (1993)

**Other Selected Readings:**

Agenor (1990), "Stabilisation Policies in Developing Countries with a Parallel Market for Foreign Exchange: A Formal framework," *IMF Staff Papers*, September.

Carmichael (1989), "The Debt Crisis: Where Do We Stand after Seven Years?" *The World Bank Research Observer*, Vol. 4, No. 2.

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

Cohen (1988), "The Management of the Developing Countries' Debt: Guidelines and Applications to Brazil," *The World Bank Economic Review*, Vol. 2, No. 1.

Corden (1986), *Inflation, Exchange Rates and the World Economy*. University of Chicago Press.

Dornbusch (1980), *Open Economy Macroeconomics*. New York: Basic Books.

Edwards, S. (1989), *Real Exchange Rate, Devaluation and Adjustment*. The MIT Press.

Granville, B., and S. Mallick (2005), How best to link poverty reduction and debt sustainability in IMF-World Bank Models? *International Review of Applied Economics*, 19 (1): 67-85

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

Helmets *et al.* (1987), *The Open Economy: Tools for Policy Makers in Developing Countries*. The World Bank, Washington.

Hyuha, M. (1997), "Reflections on Forex Bureau/Parallel and Official Foreign Exchange Rates and Inflation in Uganda: Some Empirical Evidence", in F. Mwegu and V.

Seshamani, eds. (1997), *Economic Management in Sub-Saharan Africa: Lessons for the 1970s and 1980s and Beyond*. Nairobi: East African Educational Publishers, Chapter 13.

IMF (1977), *The Monetary Approach to the Balance of Payments*. Washington D.C.

Kapur, B. (1976), "Alternative Stabilization policies for Less Developed Economies," *Journal of Political Economy*,

Lizondo (1987), "Exchange rate Differential and Balance of Payments Under Dual exchange Rates," *Journal of Development Economics*, 26, pp. 37.

Mallick, S., and T. Moore (2005), Impact of World Bank lending in an adjustment-led growth model, *Economic Systems*, 29 (4): 366-383.

Ngeno and Ndung'u, (1997), "Inflation as an Inflation Tax in Kenya," in Chhibber, A. and S. Fischer, eds. (1997).

Pinto (1989), "Black Market Premia, Exchange Rate Unification, and Inflation in Sub-Saharan Africa," *The World Bank Economic Review*, 3, No. 3.

Trenquallye (1992), "Monetary Policy Coordination under Fixed and Floating Exchange Rates," *The Economic Journal*, 100, pp. 206-214.

Walsh, C. (2003), Chapter 6.

Wijnbergen (1986), "Exchange Rate Management and Stabilization Policies in Developing Countries," *Journal of Development Economics*, 23, No. 2, pp. 227-247.



## **PART II**

### **2.1 Financial Systems and the Economy (12 Hours)**

Structure of the Financial system. Functions of Financial Intermediaries. Theory of Financial Intermediation. Financial disintermediation. Informal Financial Sector. The implication of the Informal Financial Sector on monetary policy; Financial Structures in Africa. Financial Dualism.

#### **Basic Readings:**

Agenor, P-R and J. Montiel (1998), Chapter 5.

Aryeetey, E. And M. Hyuha (1991), "The Informal Financial Sector and Markets in Africa: An Empirical Study," Chapter 13 of Chhibber and S. Fischer, eds. (1991), *Economic Reform in Sub-Saharan Africa*. Washington, D.C.: The World Bank.

Coats and Khatkhate, Part II(1).

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

Goldsmith, R. (1969), *Financial Structure and Development*. London: Yale University Press.

Green, C.J., C.H. Kirkpatrick and V. Muride (2005), *Finance and Development: Survey of Theory, Evidence and Policy*. Cheltenham: Edward Elgar.

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

McKinnon (1973).

Murinde, V., ed. (2012), *Bank Regulatory Reforms in Africa*. Palgrave Macmillan.

Shaw (1973).

Saanders A and MM Cornett(2008) 6<sup>th</sup> Edition, *Financial Institutions Management: a risk Management approach* .

#### **Other Selected Readings:**

Callier, P. (1991), *Financial Systems and Development in Africa*. Economic Development Institute, World Bank, Washington D.C.

Dell'Amore (ed) (1971), *Banking Systems in Africa*. Milan: Cass Di Risparmio Delle Provincie Lombarde.

Tobin, T. (1989), "Financial Intermediaries," in *The New Palgrave Dictionary of Economics: Money*, MacMillan Press Ltd, 1989.

Allen F and A.M. Santomero (1998). The theory of financial Intermediation. *Journal of Banking and finance* 21, pp 1461-1485.

Scholtens, B. And Van Wensveen : A critique on theory of financial Intermediation . *Journal of Banking and finance* 2000 24, pp 1243-1251.

World Bank (2002), The development and Regulation of Non-bank Financial Institutions. World bank Washington DC.

Understanding Islamic Finance (2007). Wiley Finances. Muhammed Ayub.

Auma A. And Atieno R.(2001). Financial Dualism and Financial Sector Development in Low Income Countries.Savings and Development.vol 25, no 4. Pp 413-438.

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

Measuring Financial Development. The "Stylized Facts" of Financial development and Economic development. Supply- leading and demand following finance, financial Repression, McKinnon and Shaw Hypothesis and critique, The Stiglitz–Weiss Model of Credit Rationing; Information asymmetry and Credit rationing; financial liberalisation. Financial Intermediaries and the Saving and Investment Process in Developing Countries. Financial Technology (FinTech), Financial Development and Economic Growth. Empirical evidence with emphasis on developing countries.

### **Basic Readings:**

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

Demirgüç-Kunt, A. and R. Levine (2004), *Financial Structure and Economic Growth: A Cross-country Comparison of Banks, Markets, and Development*. MIT Press.

Fry (1995), Chapters 1-11

Galbis, Vincente (1977) in *Journal of Development Studies*, 13, No. 2.

Galbis, Vincente (1979)" in *Economic Development and Cultural Change*, 27, No.. 3.

Gerardo M. Gonzales Arrieta (1988) in *World Development*, 16, No. 5.

Gupta, K.L. (1984), Finance and Economic Growth in Developing Countries. London: Groom Helm.

Jaffee (1989), Credit Rationing, in *The New Palgrave Dictionary of Economics: Money*, MacMillan Press Ltd.

Jankee, K.C. (2003), *Interest Rate Policies and Economic Mangement in Emerging Economies: The Case of Mauritius*. Saabrucken: LAP LAMBERT Acadmic Publishing.

King and Levine (1992).

Montiel (1996), in *Journal of African Economies*, Vol. 5, No. 3, pp. 65-98.

Nissanke, Machiko and Ernest Aryeetey (1998), *Financial Integration and Development: Liberalisation and Reforms in SSA*. London: Routledge.

Stiglitz, J.E. (1989), "Markets, Market Failures, and Development," *The American Economic Review* (Papers and Proceedings of the Hundred and First Annual Meeting of the American Economic Association (May, 1989)), Vol. 79, No. 2, pp. 197-203.

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

Dornbusch and Reynoso (1989), "Financial Factors in Economic Development," *American Economic Review*, Vol. 79, No 2.

Fry (1995), Chapter 4 and 5.

King and Levine (1992), "Financial Indicators and Growth in a Cross Section of Countries," Policy Research Working Paper No 819, World Bank, Washington D.C.

McKinnon, R. (1973), *Money and Capital in Economic Development*. Washington D. C.: The Brookings Institution.

Montiel (1996), in *Journal of African Economies*, Vol. 5, No. 3, pp. 65-98.

Shaw (1973), *Financial Deepening in Economic Development*. Oxford: Oxford University Press.

Walsh, C. (1998), Chapters 1-3.

### **Other Selected Readings:**

Branson (1989), Chapters 23-27.

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

Dornbusch and Reynoso (1989), "Financial Factors in Economic Development," *American Economic Review*, 79, No. 2.

Easterly and Wetzel (1989), "Policy Determinants of Growth: Survey of Theory and Evidence." WB Working Paper No. 343. Washington D.C.: World Bank.

Khan and Villanueva (1991), "Macroeconomic Policies and Growth," *African Economic Research Consortium (AERC) Special Paper*, No 13.

Khan, M.S., and Sendhadji, 2000, "Financial Development and Economic Growth: An Overview", IMF Working Paper, WP/00/209.

King and Levine (1992), "Financial Indicators and Growth in a Cross Section of Countries," Policy Research Working Paper No 819, World Bank, Washington D.C.

King, R., and Levine, R., 1993, "Finance and Growth: Schumpeter Might be right", *Quarterly Journal of Economics*, Vol. 108, No. 3.

Levine, R., 1997, "Financial Development and Economic Growth: Views and Agenda," *Journal of Economic Literature*, Vol.35, No. 2, pp. 688-26.

Levine, R., 2005, "Finance and Growth: Theory and Evidence", In Aghion, P and Durlauf, S., (eds.), *Handbook of Economic Growth*. Elsevier science, The Netherlands.

Masahiro Kawai and Eswar R. (2011). Financial market Regulation and Reforms in Emerging Markets, Asian Development Bank Institute.

McKinnon (1973, *Money and Capital in Economic Development*. Washington D. C.: The Brookings Institution.

Nicola Cetorelli and Michele Gambera, 2001, "Banking Market Structure, Financial Dependence and Growth: International Evidence from Industry Data", *The Journal of Finance*, Vol. 56, No. 2., pp. 617-648.

Shaw (1973), *Financial Deepening in Economic Development*. Oxford: Oxford University Press.

Wallich (1969), "Money and Growth: A Country Cross-Section Analysis," *Journal of Money, Credit and Banking*, Vol. 1, pp. 281-302.

World Bank (2001), *Finance for growth: Policy Choices in a volatile World*. World Bank, Oxford University Press.

Green J. Kirkpatrick A, and Mulinde (2005) Finance and Development Surveys of theory, evidence and Policy. Cheltenham: Edward Elgar.

### **2.3 Money in Growth Models (12 hours)**

Money in Growth Theory, Growth and International capital flows; Economic Growth and Money in Utility Function and Money in Production Function, Financial Intermediation in Economic Growth Process, Growth models and Financial Sector, Investment, Financial Intermediation and Economic Growth.

Handa (2009).

Tobin, J. (1965), "Money and Economic Growth," *Econometrica*, Vol. 33, October.

Metzler (1969), "Money, Intermediation and Growth," *Journal of Economic Literature*, Vol. 7, No 1.

McKinnon (1973, *Money and Capital in Economic Development*. Washington D. C.: The Brookings Institution.

## **2.4 Global Financial System and Global Economy (8 Hours)**

Financial Globalisation; Changes in the International Financial System; International Payments Mechanism; International Financial Architecture; International Financial linkages; Role of International Banking; Euro Market; International cooperation and developing countries. Currency boards.

### **Basic Readings**

Bordo D. M. (1992). The Bretton Woods International Monetary System: An historical overview, NBER working paper no. 4033.

Keith Pilbeam, *International Finance*. MacMillan.

### **Selected Readings:**

Obadan M. I. (2013). Foreign Exchange Markets and Balance of Payment: Elements, Policies and Nigerian experience. Golmark Press Ltd Abuja.

Strengthening the International Monetary System. A stock taking . IMF Policy Paper 2016

Camb J, Econ(2009). The evolving International Monetary System. *Cambridge Journal of Economics*.

## **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**

Agenor, P-R and J. Montiel (1998), Chapters 8 & 11 Agenor, P-R and J. Montiel (1996), Chapters 9, 11-14, and 16.

Harrison, A. (2006), "Globalisation and Poverty," NBER Research Paper No. 12347.

Milner, C. and A.J. Rayner (1992).

Murshed, S.M (1997).

Salvatore, D. (1993), Chapters 15-20.

Saunders and Cornett (2008), Chapters 8 - 17

Tarp, F. (1993), *Stabilisation and Structural Adjustment: Macroeconomic Frameworks for Analysing The Crisis in Sub-Saharan Africa*. London, Routledge.

### **Selected Readings:**

Bigsten, A., and S.K. Mugerwa (1999), *Crisis, Adjustment and Growth in Uganda*. Macmillan Press LTD.

Collier P., and J.W. Gunning (1999), "The IMF's Role in Structural Adjustment", *The Economic Journal*, Vol. 109, No. 459.

Harrison, A. Love, I., and M. McMillan (2004), "Global capital flows and financing constraints", *Journal of Development Economics*, 75, pp. 269-301.

Helleiner (1983), "The IMF and Africa in the 1980s," *Essays in International Finance*, No. 152.

Hyuha, M. (1996), "Structural Adjustment Programmes in Uganda since 1986: An Eclectic View and Lessons for Tanzania," *African Journal of Economic Policy*, Vol. 3, No.1, pp. 99-109.

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

International Monetary Fund, 1995, *An Analytical Framework for Medium-term Adjustment*. IMF Institute, Washington, D.C.

Keith Pilbeam, *International Finance*. MacMillan.

Khan and Knight (1981), "Stabilization Programs in Developing Countries: A Formal Framework," *IMF Staff Papers*, Vol. 28, No. 1.

Khan and Montiel (1989), "Growth Oriented Adjustment Programs: A Conceptual Framework," *IMF Staff Papers*, Vol. 36, pp. 279.

Khan, M.S., and P.J. Montiel (1990), "A Marriage Between Fund and Bank Models", *IMF Staff Papers*, Vol. 37, No.1, pp. 187-91.

Khan, M.S., P.J. Montiel and N.U. Hague (1990), "Adjustment with Growth: Relating the Analytical Approaches of the IMF and World Bank", *Journal of Development Economics*, V1.32, pp. 155-79.

Kiguel and Liviatan (1992), "When Do Heterodox Stabilization Programs Work? Lessons from Experience," *The World Bank Research Observer*, Vol. 7, No 1.

Killick, T. (ed.) (1984), *The Quest for Economic Stabilisation*, HEB.

Ndulu, B.J. (1990) "Growth and Adjustment in Sub-Saharan Africa," *The World Bank Economic Issues Conference*, Nairobi.

Stevenson, A. *et.al.* (1988).

World Bank (1990), *Making Adjustment Work for the Poor: A framework for Policy Reform in Africa*. Washington, D.C. World Bank.

World Bank (1994), *Adjustment in Africa: Reforms, Results and Road Ahead*. Washington, D.C. World Bank.