MONETARY ECONOMICS

COURSE OUTLINE

(Revised: February, 2017)
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**


**Supplementary Texts**

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


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

**Basic Readings**

   Arlington Heights: AHM Publishing.


2. Channels of Monetary Policy Transmission (16 Hours)

2.1 Review of Classical Transmission Mechanisms (2 Hours)

Basic Readings

2.6 Keynesian Channel (3 Hours)

2.6.1 Keynes’ criticisms of the classical analysis
2.6.2 Keynesian transmission mechanism
   - Hypotheses
   - A critical analysis of the Keynesian transmission channel

Basic Readings*

2.3 Monetarist Channel (3 Hours)

**Basic Readings**


2.4 New Keynesian (2 Hours)

**Basic Readings**


2.5 Expectations (2 Hours)

Basic Readings*


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*


2.7 The Exchange Rate Channel (2 Hours)

**Basic Readings**


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*


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*


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*
   [:Macroeconomic effects of financial repression] Economie Appliquée [: Applied Economics], December
2. Polak (1969)
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. 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:

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

   Mechanism”, Quarterly journal of economics

   Development”, The World Bank Development Research Group Macroeconomics and


   Economic Studies

   Political Economy

   Press

   1100.


   AER 71(3) p393-410

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)


8.4 African Experience:case studies (2 hours)

Basic Readings


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*


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**

15. Ha-joon Chang (2008),The Bad Samaritans; the mess of free trade and secret history of capitalism.bloomsbury TLC, NY.

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


