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**Code: ECON-308**

**Title: Monetary Economics**

**Credit Hours: 03**

**Prerequisite: Intermediate Macroeconomics**

**Objectives:**

This course is intended to provide the students a thorough understanding of monetary theory, financial markets, importance of money and interest rates along with the conduct of monetary policy in closed and open economy. This course also introduces the alternative monetary policy stances. In addition, this includes the discussion of monetarists' and Keynesian views regarding inflation.

**Course Contents**

**Introduction and Development of Monetary Mechanism**

Evolution of Money and Payment System. Definition of Money, Function of Money & Measurement of Money, Demand for Money & Supply of Money. Definitions of Money, M1, M2, M3, etc. The Evolution of Monetary Thought, Quantity Theory of money, Keynesian Tradition, Monetarism and Modern Quantity Theory, Rational Expectation Theory

**Role of Money in the Economy**

Debate on neutrality and non-neutrality of Money. Classical Dichotomy and Keynesian Integration of Nominal and Real Sectors. Role of Money in the ISLM Framework. Money in Aggregate Demand & Aggregate Supply Analysis. Keynesian Vs. Monetarist views of Equilibrium Output, Employment and Prices

**Theory of Demand for Money**

Quantity Theory of Money. Transaction Theories of Demand for Money. Portfolio Theories of Demand for Money. Baumol – Tobin Model of Cash Management. Friedman's Restatement of Quantity Theory of Money: Empirical Evidence on the Demand for Money

**The Money Supply Process**

Monetary Base, Keynesian Liquidity Preference Framework, Friedman's Modern Quantity Theory of Money. Multiple Deposit Creation: Introducing the Money Supply Process. Determinants of the Money Supply: Exogenous and Endogenous. Understanding Movements in the Monetary Base, Money Multiplier. Velocity of Money and its variability. Explaining Depositor and Bank Behaviour: The Complete Money Supply Model. Regressive Expectation Model

**The Conduct of Monetary Policy: Central Bank**

Structure and Functions of Central Bank. Independence of Central Bank and its role in Economic Growth. Tool of Central Bank for Money Control. Monetary Base. The Conduct of Monetary Policy: Goals and Targets. Tools of Monetary Policy: Three Major Tools of Monetary Policy. Required Reserve Ratio, Discount Window Loans and Open Market

Operation. Advantages and Disadvantages and Impact Analysis of each Policy Tool. Central Bank as a lender of last Resort. Financial Intermediaries. Monetization of Public Debt. Ineffectiveness of Stabilization Policies. Targeting interest rate and inflation

### **Money & Interest Rates**

Determinants of interest rates. Kinds of Interest Rates. The Behavior of Interest Rates. Understanding & Measuring the Interest Rates. Real & Nominal Interest Rates, Theories of Interest Rate Determination. The Risk and Term Structure of Interest Rates. The Distinction Between Interest Rates and Returns. Maturity & Volatility of Bond Returns. Portfolio Choice: The Theory of Asset Demand

### **Money and Inflation**

What is Inflation & Causes of Inflation? Demand – pull Inflation, Cost – push Inflation, Stagflation & Hyperinflation. Inflation as a Monetary Phenomenon. The Philips Curve and Accelerating Inflation. Inflation in Pakistan: Sources and Managing Policies. Sources of Inflation in Pakistan: Spiracle Evidences. Policies to Combat Inflation in Pakistan

### **Monetary Policy in International Framework**

Money Demand and Empirical Evidences. Money in Growth Models. Inflationary Spiral. Current Issues in Monetary and Financial Sector Reforms. Conduct of Monetary Policy in Fixed and Flexible Exchange Rates. Perfect Mobility of Capital and Money Control, Effectiveness of Policy. Impact of Reserves on B.O.P and Exchange Rates. Targeting exchange rate. Managed Exchange Rate System and Monetary Policy. Targeting Inflation. Exchange Rate and Balance of Payment

### **Recommended Books:**

- Mishkin, Frederic S. (2001). the Economics of Money, Banking and Financial Markets. (Sixth edition). Addison Wesley, New York. Latest edition
- Bennett T. McCallum. (1989). Monetary Economics, Theory and Policy, McMillan. latest edition

### **Additional Readings:**

- Fredric S. Mishkin, (1995). Financial Markets and Money, Harper & Row Publishers.
- Laider, David E.W. (1996). The Demand for Money: Theories, Evidence and Problems (Fourth edition), Harper & Row, Publishers, New York.
- Miller, R. L. and David VanHose, (2001). Money, Banking & Financial Markets. South Western, Singapore.
- Vanish K. (2000). Monetary Theory. Vikas Publishing House, Delhi.
- Patinkin Don, Money, Interest and Prices, Harper and Row Publishers, (Latest Edition)
- Handa J. (2000). Monetary Economics, London: Routledge