

Code: ECON-419

Title: Monetary Theory and Policy

Credit Hours: 03

Prerequisite: Intermediate Microeconomics and Intermediate Macroeconomics

Objectives:

The course is intended to provide the students a thorough understanding of monetary theory monetary policy.

Course Contents

Definition and Tools of Monetary Policy

The Market for Reserves and the Federal Funds Rate; Demand and Supply in the Market for Reserves, Major Tools of Monetary Policy, Changes in the Tools of Monetary Policy and its Effect on the Federal Funds Rate.

The Conduct of Monetary Policy: Strategy and Tactics

Monetary Targeting. Advantages of Monetary Targeting, Inflation Targeting, Advantages and Disadvantages of Inflation Targeting. Choosing the Policy Instrument and Criteria for Choosing the Policy Instrument. The Taylor Rule. Central Banks Response to Asset-Price Bubbles: Lessons from Supreme Crisis.

The Foreign Exchange Market

What are Foreign Exchange Rates? Why are Exchange Rates Important? How is Foreign Exchange Traded? Exchange Rates in the Long Run, Exchange Rates in The Short Run: A Supply and Demand Analysis. Explaining Changes in Exchange Rates; Shifts in the Demand for Domestic Assets, Domestic Interest Rate, Foreign Interest Rate, Changes in the Expected Future Exchange Rate, Recap: Factors That Change the Exchange Rate.

The International Financial System

Intervention in The Foreign Exchange Market, Exchange Rate Regimes in The International Financial System, Capital Controls, Role of IMF, International Considerations and Monetary Policy and to Peg and Not To Peg: Exchange Rate Targeting As an Alternative Monetary Policy Strategy.

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.

Time Inconsistency/CB Independence.

Rules Vs Discretion debate. Monetary Policy Rules, Discretion in monetary policy making, Central Bank independence and monetary policy under CBI.

VAR Model of Monetary Policy

Introduction to VAR, Representation of VAR and Estimation, Granger Causality Impulse Response Function, Forecast Error Variance Decomposition.

Transmission Mechanism of Monetary Policy: The Evidence

Framework For Evaluating Empirical Evidence, Transmission Mechanism of Monetary Policy

and Lessons For Monetary Policy. Transmission channels: Interest rate channel, Ex-Rate Channel.

Recommended Books:

- Bennett T. McCallum. (1989). Monetary Economics, Theory and Policy, McMillan.
- Fredric S. M. (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.
- Mishkin, Frederic S. (2001). The Economics of Money, Banking and Financial Markets. (Sixth edition). Addison Wesley, New York.
- Patinkin Don. Money, Interest and Prices, Harper and Row Publishers, (Latest Edition).