

THE UNIVERSITY OF THE WEST INDIES
DEPARTMENT OF ECONOMICS

ECON 3005: Monetary Theory and Policy

Semester I, 2020/21

Lecturer: Jevon Henry

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Office Hours: Mondays 11 am–1 pm; Tuesdays 11 am-12 noon; by appointment

Pre-requisites: ECON2000 & ECON2002

Course Description:

This course is designed to cover basic materials in modern monetary theory: demand for and supply of money and credit, interest rate theory, and inflation. The conduct of monetary policy, and its effect on economic activity, and the price level will also be discussed.

Learning Outcomes:

By the close of the semester, students will be expected to have acquired knowledge and clear understanding of the following:

1. Define the money supply, central bank, GNP, float, animal spirit, barter, exchange rates, aggregate demand, aggregate supply, monetary policy instruments, fiscal policy instruments, quantitative easing, activist policy, non-activist policy, transmission mechanism, T-accounts, central banks assets, liabilities, net worth, inflation, rational expectation, etc.
2. Describe and discuss how the central bank conducts monetary policy, the functions of money, how it is measured, and has evolved over time.
3. Determine the factors that influence the money supply. List the tools and goals of monetary policy, and illustrate how the central bank manipulates the tools or instruments of monetary policy to influence the goals of the central bank. Describe, analyze and discuss how the central bank chooses its targets, and the strategies it uses to achieve its targets.
4. Describe, analyze and distinguish various approaches to money demand, and analyze and determine empirical evidence on the demand for money. Derive the square root formula for money demand.
5. Calculate aggregate output, derive the ISLM curves, and use it to determine aggregate output, interest rates, and prices. Determine the factors that cause the IS and LM curves to shift.
6. Derive the aggregate demand from the ISLM curves. Demonstrate how monetary policy and fiscal policy influence aggregate output, prices, and interest rates. Distinguish the effectiveness of monetary policy from the effectiveness of fiscal policy. Distinguish Keynesian aggregate supply from monetarist aggregate supply.
7. Describe, discuss and analyze the views of inflation. Describe and demonstrate how monetary policy results in inflation. Define debt monetization and demonstrate how the central bank can employ monetary policy to originate and fuel inflation.
8. Define activist and non-activist policy. Demonstrate how they influence inflation. Determine which of the two policy actions can be employed by the central bank to reduce and stop inflation. Distinguish rules versus discretion; and relate them to activist and non-activist policy. Discuss which of these policies is consistent with the central bank's objective of inflation targeting.
9. Describe the transmission mechanism of monetary policy. Distinguish early Keynesian evidence from early monetarist evidence.

Mode of delivery:

Two lecture hours and one tutorial hour per week. *Delivery will be online.*

Distribution of grades

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|--------------------------|-----|
| Mid-semester examination | 50% |
| Final examination | 50% |

Students are advised to consult the UWI's *Faculty of Social Sciences' Handbook* for the rules and regulations governing the class.

Main Textbook

Mishkin, F.S. (2016), **The Economics of Money, Banking, and Financial Markets**, (New York: Pearson Publishers).

Other relevant reading*

Symposia: The Monetary Transmission Mechanism, *Journal of Economic Perspectives*, 9 (4), Fall 1995, 3-95.

Course SyllabusIntroduction

Chapter 3: What is money? pp. 49-63.

Central banking and the conduct of monetary policy

Chapter 14: The money supply process, pp. 316-340.

Chapter 15: The tools of monetary policy, pp. 341-364.

Chapter 16: The Conduct of Monetary Policy: Strategy and Tactics, pp. 366-376, 387-398.

Monetary Theory

Chapter 19: The demand for money, pp. 456-473.

Chapter 20: The ISLM Curve, pp. 474-493.

Chapter 21: The Monetary Policy and Aggregate Demand Curves, pp. 494-508.

Chapter 22: Aggregate Demand and Supply Analysis, pp. 509-543.

Chapter 23: Monetary Policy Theory, pp. 553-581.

Chapter 24: The Role of Expectation in Monetary Policy, pp. 582-601.

Chapter 25: Transmission mechanism, pp. 602-617.

***Additional Readings will be provided in class.**