THE UNIVERSITY OF THE WEST INDIES
ST. AUGUSTINE, TRINIDAD AND TOBAGO, WEST INDIES
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS

**ECON 3005 - Monetary Theory and Policy**

**Semester I – 2009/2010**

**Lecturer:** Lester Henry (email address: [Lester.Henry@sta.uwi.edu](mailto:Lester.Henry@sta.uwi.edu))

**Office Hours:** Monday and Thursdays, 2:00- 4:00 p.m.

**Course aims**

To provide students with a solid grounding in (1) the fundamentals of monetary theory and (2) how monetary policy is implemented in Trinidad and Tobago and the wider Caribbean.

**Course description**

This course examines the basic workings of the financial system and monetary policy primarily in developing countries. There is an emphasis on understanding the issues relating to interest rates, the tools of monetary policy, and the role of the Central Bank in Trinidad and Tobago. The general economics and structure of the financial system is also discussed. Furthermore, the main monetary and financial issues confronting the Trinidad and Tobago and the CARICOM region as a whole are examined. For example, possible monetary union, intra-Caribbean investment and exchange rate systems are discussed.

**Learning Objectives**

It is expected that students completing this course will be able to:

- Clearly understand the role and function money and the financial system and various views on monetary policy
- Appreciate the meaning and functions of monetary policy, and the evolution of the current system of payments
- Understand the working of the financial system and monetary policy in Trinidad and Tobago and the wider Caribbean
- Understand the basic tools of monetary policy, and the role and function of the Central Bank
- Appreciate the main pros and cons of forming a Caribbean Monetary Union, and the benefits and pitfalls of the participation in agreements such as the FTAA, and the WTO

**Assessment**

The course will be assessed by a 2-hour exam at the end of the semester.

**Topics**
1. **Introduction and Overview of the Course**
   Meaning of money, functions of money, modern types of money, and the evolution of the payments system. What is the function of financial markets, the structure of financial markets, and instruments of financial market? Mishkin(2004), Chaps. 1,2, and 3

2. **Theories of Monetary Policy**
   Classical, Monetarist, Keynesian and Post-Keynesian views Tcherneva (2001)

3. **Monetary Policy in Developing Countries**
   Problems associated with the implementation of monetary policies in small open developing countries.

4. **Financial Institutions in Developing Countries**
   The characteristics and structure of financial institutions in developing countries. Fry (1985)

5. **Finance, Growth and Development**
   The link between financial development and economic growth. Issues such as financial deepening, the Mckinnon-Shaw hypothesis, and financial repression Birchwood (2003)

6. **Financial Liberalization in Developing Countries**

7. **The Financial System and Monetary Policy in Trinidad and Tobago**
   The structure of the Financial System in Trinidad and Tobago. Description of the payments system, recent reforms in the system and, the competitiveness of the financial institutions in the country

9. **Monetary Management in Trinidad and Tobago**
   The role of the Central Bank as regulator, how the Bank conducts monetary policy and exchange rate stability

10. **Caribbean Monetary Issues**
    Caribbean Monetary Integration, Potential Impact of the CSME, the FTAA, and the WTO on the monetary systems in the Caribbean
    Nicholls and Seerattan (2004)

**Reading List**

**Useful Texts**


Central Bank of Trinidad and Tobago, *Monetary Policy Report*

http://www.central-bank.org.tt/
Articles and Papers

Henry, L. (2000) “Aspects of Financial Liberalization: The Case of Trinidad and Tobago”, the Faculty of Social Sciences Working Paper Series, University of the West Indies, St. Augustine


Brown D. R. History of Money and Banking in Trinidad (D.R. Brown)


