

Course Information Monetary Theory and Policy	
Course Code	ECON 3005
Course Title	Monetary Theory and Policy
Course Discipline	Economics
Units of Credit	Three (3)
Pre-requisite	ECON 2000 and ECON 2002
Level	Level III
Semester of Offering	Semester 1, 2019/2020
Lecturer E-mail Address Office Address/Office Hours	Mr. Leon Henry Leon.Henry@sta.uwi.edu Room 204 B Wednesdays 10am – 12noon

LETTER TO THE STUDENTS

Dear Student,

INTRODUCTION: We warmly welcome you to this course, ECON 3005: Monetary Theory and Policy! We hope that you are enthusiastic and committed to hard work—all of which will ensure your success in this course. This course offers you the opportunity to explore the theoretical and practical aspects of monetary policy, with particular reference to developing countries and Caribbean issues. You should attend all lectures and tutorial sessions! Follow a routine that suits you best and this will prove to be a manageable and intellectually rewarding experience. Please remember that we are always willing to assist you throughout your journey, do not hesitate to contact us either via email or during office hours. Good luck and hope you enjoy this course!

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 money, 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 relevant to both Trinidad and Tobago and the CARICOM region are examined. For example, the creation of a monetary union, intra-Caribbean investment and exchange rate systems are discussed.

TEACHING STRATEGIES: The course delivery will take the form of a weekly lecture supported by a weekly tutorial. The two (2) hour lectures will be delivered via PowerPoint presentations, which correspond to the main readings for each section of the course. The lecturer encourages student participation during classroom discussions and welcomes feedback from students. A guest lecture may be held during the semester.

Tutorial classes will be based on tutorial sheets, which can be accessed via Myelearning. Tutorials are meant to reinforce key concepts covered in lectures. Tutorial attendance is mandatory for ALL students. University regulations allow for students to be debarred from final examinations, if they do not attend at least 75% of tutorial classes. Student attendance will be monitored regularly to ensure that the regulation is enforced.

COURSE ASSESSMENT: - Mid-term Examination: 20% - Final Examination 80% The final exam usually consists of four (4) questions. The duration is 2 hours.

COURSE CONTENT:

I. INTRODUCTION:

- Course Overview
- Money: functions, types and evolution of payments system.
- Tools of monetary policy
- Function and structure of financial markets
- Asymmetric Information (adverse selection and moral hazard)

Readings: o Mishkin, F. (2013), Chapters: 1, 2, 3, 8, 17 (Global Edition).

II. THEORIES OF MONETARY POLICY:

- Perspectives on monetary policy:
 - o Orthodox versus Post-Keynesian
 - o Classical, Monetarists and Keynesians
- Monetary targeting strategies

Readings:

- o Mishkin, F. (2013), Chapter: 26 (Global Edition). Students can view: Chapter 26(7th Edition).
- o Miller, R. (2005), Chapter 14: The Monetary Approach to Stabilization, (slides):
<http://wps.aw.com/wps/media/objects/1001/1025108/notes/umenotes14.pdf>
- o Tcherneva, P. (2001), “Money: A Comparison of the Post-Keynesian and Orthodox Approaches: economics, Volume IV, Winter.
- o Mishkin, F. and Savasrano, M. (2002), “Monetary Policy Strategies for Emerging Market Countries: Lessons from Latin America”. Presented at the 7th Dubrovnik Conference Croatia, June 28-30, 2001.

III. MONETARY POLICY AND FINANCIAL INSTITUTIONS IN DEVELOPING COUNTRIES:

- Implementation of monetary policy in developing countries
- Caribbean approaches to monetary policy
- Characteristics and structure of financial institutions in developing countries
- Commercial Banking sector in the Caribbean region

Readings:

- Bank for International Settlements (BIS), (2007), “Evolving banking systems in Latin American and the Caribbean: challenges and implications for monetary policy and financial stability” BIS Papers No.33. <http://www.bis.org/publ/bppdf/bispap33.pdf>
- Birchwood, A. (2003), “Banking in Small States: The Case of Caribbean Commercial Banks”, St. Augustine: Caribbean Center for Monetary Studies: Chapters 2 and 3.
- Hein, S. and Stewart, J. (2002), “Reserve Requirements: A Modern Perspective.”, Federal Reserve Bank of Atlanta Economic Review,
http://www.frbatlanta.org/filelegacydocs/erq402_hein.pdf
- Alexander, W., Balino, T. and Enoch, C. (1996), “Adopting Indirect Instruments of Monetary Policy”, Finance and Development, Volume 33, No. 1.
- Ghatak, S. (1995) Chapter 2. • Fry, M. J. (1988), “Money, Interest, and Banking in Economic Development”, Chapter 11:” Financial Institutions and Markets in Developing Countries”.

IV. FINANCE, GROWTH AND DEVELOPMENT IN THE CARIBBEAN:

- Linkages between financial development and economic growth
- Importance of the financial sector

Readings:

- o Bennett, K. (2006), “Rethinking the role of the Financial Sector in Economic Growth in CARICOM”, Journal of Business, Finance and Economics in Emerging Economies, Volume 1, Number 1.
- o Levine, R. (2005), “Finance and Growth: Theory and Evidence”, Handbook of Economic Growth, Volume 1A.
- o Birchwood, A. (2003), “Banking in Small States: The Case of Caribbean Commercial Banks”, St. Augustine: Caribbean Center for Monetary Studies: Chapter 4.

V. FINANCIAL LIBERALIZATION IN DEVELOPING COUNTRIES:

- What is financial liberalization?
- What is financial repression?
- Mc Kinnon-Shaw hypothesis
 - Main reasons for the use of these policies
- Advantages and disadvantages of each policy

Readings:

- o Ito, H. (2008), “Financial Repression”, The Princeton Encyclopedia of the World Economy, Princeton University Press http://web.pdx.edu/~ito/Financial_repression_RE_-HI.pdf
- o Ghosh, J. (2005), “The Economic and Social Effects of Financial Liberalization: A Primer for Developing Countries”, UN/DESA Working Paper, No. 4, October, http://www.un.org/esa/desa/papers/2005/wp4_2005.pdf?utm_source=OldRedirect&utm_medium=redirect&utm_campaign=OldRedirect
- o Henry, L. (2000), “Aspects of Financial Liberalization: The Case of Trinidad and Tobago”, Faculty of Social Sciences Working Paper Series, The University of the West Indies, St. Augustine.

o Fry, M.J. (1997), “In Favour of Financial Liberalization”, The Economic Journal, May, pp. 754-770.

VI. GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON THE CARIBBEAN REGION:

- Theoretical causes of financial crises
- Reasons for the recent global financial crisis
- Effects of the global financial crisis on Caribbean states Readings:

o Mishkin, F. (2013), Chapters: 9 and 10. (Global Edition) o Henry, L. and Bissessar, N. (2010), “Trouble in Paradise: The impact of the Global Financial Crisis on the Caribbean”, Global Development Studies, Volume 6, Nos. 1-2.

o UNCTAD (2010), “The Financial and Economic Crisis of 2008-2009 and developing countries”, United Nations Publication, http://unctad.org/en/Docs/gdsmdp20101_en.pdf o Williams, E. (2010), “Impact of financial crises on the Caribbean”, <http://www.bis.org/review/r100305d.pdf>

o Henry, L. (2009), “One Huge “Minsky Moment”: Lessons from the Financial Crisis, Social and Economic Studies, Volume 58, No. 2.

o Downes, A. (2009), “The Global Economic Crisis and Caribbean States: Impact and Responses”, Presented at Commonwealth Secretariat Conference on the Global Economic Crisis and Small States, London, July 6-7, 2009.

o Worrell, D.(2009), “The impact of the global crisis, the responses of Caribbean governments, and the choices available to Caribbean business”, Caribbean Centre for Money and Finance, http://ccmfuwi.org/files/publications/misc/delisle_worrell/TheimpactoftheGlobalCrisis.pdf

o UN (2009), “Caribbean Development Report: Volume 2”: Global economic crisis: CARICOM impacts and responses (Clive Thomas) pp. 6-33, <http://www.eclac.org/publicaciones/xml/3/38253/LCARL.245part1.pdf>

COURSE SCHEDULE

Course Schedule	Topics
Week 1	Introduction and overview of course
Week 2	Financial markets and asymmetric information
Week 3	Theories of Monetary Policy
Week 4	Monetary policy strategies
Week 5	Monetary Policy in Developing Countries
Week 6	Finance Growth and Development
Week 7	Coursework Exam
Week 8	Financial Liberalization and Financial Repression
Week 9	Financial Crisis
Week 10	Global Financial Crisis and Its Impact On The Caribbean Region
Week 11	Exchange Rate Inertia
Week 12	Review

RESOURCES: REFERENCE TEXTS:

- Mishkin, F. S. (2013), The Economics of Money, Banking and Financial Markets, 10th Edition, New York: Addison-Wesley (GLOBAL EDITION)
- CARICOM Secretariat (2010), Caribbean Trade and Investment Report 2010, Ian Randle Publishers, Jamaica.
- Birchwood, A. and Seerattan, D. (ed.) (2006), Finance and Real Development in the Caribbean, Caribbean Centre for Monetary Studies (CCMS), UWI, St. Augustine, T&T.
- Fry, M. (1995), Money, Interest, and Banking in Economic Development, 2nd ed., London: The Johns Hopkins University Press.
- Ghatak, S. (1995), Monetary Economics in Developing Countries, 2nd Edition, New York, St. Martin's Press.

OTHER MATERIALS:

- Central Bank of Trinidad and Tobago (CBTT) Website: <http://www.central-bank.org.tt/>
- Central Bank of Trinidad and Tobago (CBTT), Monetary Policy Reports, Annual Economic Surveys and Financial Stability Reports.

**It is recommended that students read other relevant materials found in textbooks, academic papers and websites.

ADDITIONAL INFORMATION

Please also take note in your guidelines to Examinations Booklet (available online) of the following regulation:

General Examination Regulation

19. *Any candidate who has been absent from the University for a prolonged period during the teaching of a particular course for any reason other than illness or whose attendance at prescribed lectures, classes, practical classes, tutorials, or clinical instructions has been unsatisfactory or who has failed to submit essays or other exercises set by his/her teachers, may be debarred by the relevant Academic Board, on the recommendation of the relevant Faculty Board, from taking any University examinations. The procedures to be used shall be prescribed in Faculty Regulations.*

Cheating

97. (i) *Cheating shall constitute a major offence under these regulations.*
 (ii) *Cheating is any attempt to benefit one's self or another by deceit or fraud.*
 (iii) *Plagiarism is a form of cheating*
 (iv) *Plagiarism is the unauthorized and/ or unacknowledged use of another person's intellectual effort and creations howsoever recorded, including whether formally published or in manuscript or in typescript or other printed or electronically presented form and includes taking passages, ideas or structures from another work or author without proper and unequivocal attribution of such source(s), using the conventions for attributions or citing used in this University.*
103. (i) *If any candidate is suspected of cheating, or attempting to cheat, the circumstances shall be reported in writing to the Campus Registrar. The Campus Registrar shall refer the matter to the Chairman of the Campus Committee on Examinations. If the Chairman so decides, the Committee shall invite the candidate for an interview and shall conduct an investigation. If the candidate is found guilty of cheating or attempting to cheat, the*

Committee shall disqualify the candidate from the examination in the course concerned, and may also disqualify him/her from all examinations taken in that examination session; and may also disqualify him/her from all further examinations of the University, for any period of time, and may impose a fine not exceeding Bds\$300.00 or J\$5000.00 or TT\$900.00 or US\$150.00 (according to campus). If the candidate fails to attend and does not offer a satisfactory excuse prior to the hearing, the Committee may hear the case in the candidate's absence.

It is our policy as your lecturers to ask you to turn your mobile phones to vibrate or silent modes during classes. It is unacceptable to use your phone in any manner during lectures or tutorials. This includes emails, text messages, blackberry messages, or any other sort of phone use.

Please note that your presence in the classroom indicates your readiness to listen and learn. There should be no talking about non-class related matters while in the classroom, no passing of notes, or any other distracting activity. Remember that the point of attending a lecture and tutorial is to learn and you should be courteous to the students around you and not engage in any activity that will hinder their learning.

NEW GRADING SCHEME

Grade	% Range	Grade Point	Grade Descriptor
A+	90-100	4.3	Exceptional
A	80-89	4	Outstanding
A-	75-79	3.7	Excellent
B+	70-74	3.3	Very Good
B	65-69	3	Good
B-	60-64	2.7	Satisfactory
C+	55-59	2.3	Fair
C	50-54	2	Acceptable
F1	45-49	1.7	Unsatisfactory
F2	40-44	1.3	Weak
F3	0-39	0	Poor