

ECON 3005 MONETARY THEORY AND POLICY
COURSE OUTLINE
ACADEMIC YEAR 2023/2024

COURSE INFORMATION	
Course Code	ECON 3005
Course Title	Monetary Theory and Policy
Level	3
Semester	1 (September - December 2023)
Credits	3
Pre-requisite(s)	ECON 2000 and ECON 2002

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!

TEACHING STRATEGIES:

The course delivery will take the form of a weekly lecture supported by a weekly tutorial. The three (3) 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 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.

PURPOSE OF THE COURSE:

This course is designed to deepen students understanding of monetary theories and related policy issues. It allows students to gain an appreciation of the workings of the financial system and the ability to analyze monetary issues relevant to the Caribbean region.

COURSE CONTENT:

I. INTRODUCTION:

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

- o Mishkin, F. (2013), Chapters: 1, 2, 3, 8, 17 (Global Edition).
- o Cecchetti & Schoenholtz(2020) Money, Banking and Financial Markets(4th)

II. THEORIES OF MONETARY POLICY:

- Perspectives on monetary policy:
 - o Orthodox versus Post-Keynesian
 - o Classical, Monetarists and Keynesians
 - o Modern Monetary Theory (MMT)

Readings:

- Tcherneva, P. (2001), “Money: A Comparison of the Post-Keynesian and Orthodox Approaches: **Oeconomicus**, Volume IV, Winter.
- Cecchetti & Schoenholtz(2020) Money, Banking and Financial Markets(6th Edition) Chapter 20: Money Growth, Money Demand, and Modern Monetary Policy
- M. Kasongo Kashama, 2020. "An assessment of modern monetary theory," Economic Review, National Bank of Belgium, issue ii, pages 131-144, September

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
 - o Theoretical
 - o Recent studies
- Importance of the financial sector

Readings:

- 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.
- o Sugeeth Patabendige & Chathuri Senarath, 2015. "Financial Liberalization: A Fourth Generation Thought," *Global Journal of Business Research*, The Institute for Business and Finance Research, vol. 9(3), pages 73-82

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:

- Mishkin, F. (2013), Chapters: 9 and 10. (Global Edition)
- 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.
- UNCTAD (2010), "The Financial and Economic Crisis of 2008-2009 and developing countries", **United Nations Publication**, http://unctad.org/en/Docs/gdsmdp20101_en.pdf
- Williams, E. (2010), "Impact of financial crises on the Caribbean", <http://www.bis.org/review/r100305d.pdf>
- Henry, L. (2009), "One Huge "Minsky Moment": Lessons from the Financial Crisis, **Social and Economic Studies**, Volume 58, No. 2.
- 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.
- 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
- 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>
- Wei, Shang-Jin, 2018. "Managing Financial Globalization: A Guide for Developing Countries Based on the Recent Literature," ADBI Working Papers 804, Asian Development Bank Institute.
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- Schmukler, Sergio L. & Abraham, Facundo, 2017. "Financial globalization : a glass half empty ?," Policy Research Working Paper Series 8194, The World Bank

VII. THE FINANCIAL SYSTEM AND MONETARY MANAGEMENT ISSUES:

- Structure of the financial system of Trinidad and Tobago

- Conduct of monetary policy in Trinidad and Tobago
- The payments system in Trinidad and Tobago
- The state of the financial sector in the Caribbean region
- Financial stability issues
- Reforms of the financial system
- Regulatory issues: role of the Central Bank, with a focus on the non-bank financial institutions
- Other issues: exchange rate stability, credit-ratings, financial services sector.

Readings:

- Mishkin, F. (2013), Chapter: 12.(Global Edition).
-
- CARICOM Secretariat (2010),” **Caribbean Trade and Investment Report 2010**”, Chapter 6: Firm Weaknesses and Regulatory Reform of Non-Bank Financial Sector, Ian Randle Publishers, Jamaica. Pg 188-225.
- CBTT (2009), “ **The Payments System in Trinidad and Tobago**”, Public Education Pamphlet Series No. 5, <http://www.central-bank.org.tt/pdf/Public%20Education%20Pamphlets/The%20Payments%20System%20In%20Trinidad%20&%20Tobago.pdf>
- Nicholls, G. and Seerattan, D. (2004), “The Regulation of Non-Bank Financial Institutions in the Eastern Caribbean”, St. Augustine: **Caribbean Center for Monetary Studies**, http://ccmfuwi.org/files/publications/monograph_book/TheRegulationofNon-BankFinancialInstituionsintheEasternCaribbeanCurrencyUnion.pdf
- Ministry of Finance (2004), “**The Reform of the Financial System**”, Trinidad and Tobago.
- Henry, L. (2002), “**Financial Liberalization and Exchange Rate Inertia: The Case of Trinidad and Tobago**”, Caribbean Center for Monetary Studies Conference, Georgetown, Guyana.
- Worrell, D. (1997), “Bank Behaviour and Monetary Policy in Small Open Economies with Reference to the Caribbean”, **Social and Economic Studies**, Vol. 46: No. 2 &3, University of the West Indies: Kingston: Jamaica.

VIII. CARIBBEAN MONETARY ISSUES:

- What is a monetary or currency union?
- The potential for monetary integration in the Caribbean: history and progress
- Dollarization or currency board arrangements?
- Impact of the CSME, EPA and WTO on the monetary systems in the Caribbean.

Readings:

- Baladi, A. (2007), “Realizing a Caribbean Monetary Union”, **Business, Finance & Economics In Emerging Economies**, Vol. 2, No. 1, 2007.
- Williams, E. (2006), “**From Single Market to Single Economy: Benefits and Challenges**” Presented at the Second Biennial International Conference on Business, Banking & Finance, <http://www.central-bank.org.tt/sites/default/files/International%20Conference%20on%20Business%20%20Banking%20&%20Finance%20May%202006.pdf>
- Worrell, D. (2006), “A Currency Union for the Caribbean”, in Birchwood and Seerattan eds. **Finance and the Real Development in the Caribbean**, Caribbean Centre for Monetary Studies, UWI St. Augustine, pp. 313-345.
- Henry, L. (2004), “Monetary Integration in Beautiful Places: Prospects for the Caribbean”, in Michelis and Lovewell eds., **Exchange Rates, Economic Integration, and the International Economy, Toronto**: APF Press, pp.293-310.
- Anthony, M and Hallett, A.H. (2000), “Is the Case for Economic and Monetary Union in the Caribbean Realistic?,” **World Economy**, Vol. 23: 119-144.

GOAL/AIMS:

The goal of this course is to ensure that students are knowledgeable and competent in monetary theory and its application to real world issues.

GENERAL OBJECTIVES:

- To make the course student-friendly and ensure the information is conveyed in a simple and comprehensive manner.
- To discuss various theoretical issues relevant to analyzing monetary policy decisions and financial systems.
- To explain the workings of the financial system and the conduct of monetary policy in the Trinidad and Tobago and Caribbean context.
- To evaluate the causes of financial crises and the implications for financial systems exposed to them.
- To investigate the role and function of the Central Bank and other financial institutions.
- To analyze the issues involved in the formation of a Caribbean Monetary Union.

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 readings may be provided during the tenure of the course.

DEPARTMENTAL EVENTS:

- Attendance at the Post National Budget Forum: students are advised to check the Departmental Website (<http://sta.uwi.edu/fss/economics/index.asp>) after the annual presentation of the National Budget in the Parliament: 10th September 2014, 7pm – 9pm, Daaga Auditorium.
- Attendance at the Department of Economics' Conference on the Economy (COTE): October 8th - 10th, 2014.
- Attendance at Demas/Rampersad Seminar Series: students can refer to the Departmental website and announcements will be made in class.

ADDITIONAL INFORMATION:

REGULATIONS:

Please refer to the Examinations Booklet (available online) for information on the following regulations:

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.*

LECTURER'S IN-CLASS RULES:

- Please turn off or switch mobile phones to vibrate or silent modes during classes.
- Please pay attention and ask questions whenever you are unsure about a topic that is being taught (do not wait until "the last minute" to make your concerns known).
- Please do refrain from any distracting behavior or activities during class time.

HOW TO APPROACH THIS COURSE:

- Attend ALL lectures. Please don't disregard the importance of these sessions!
- Read the required readings BEFORE classes to ensure you understand the course material.
- Ask questions...don't be afraid to approach the lecturers or tutors to address any concerns you may have...we're here to assist you!
- Attend tutorials and attempt ALL questions...this is a way to personally assess whether you understand what is being taught in lectures.
- Attempt past paper questions after the completion of each topic...this helps you become more familiar with the material and the requirements of the exam. Practice makes perfect!
- Always begin studying early...don't procrastinate!

COURSE SCHEDULE:

WEEK	TOPIC
1	Introduction and overview of course
2	Financial markets and asymmetric information
3	Monetary policy strategies
4	Theories of monetary policy
5	Monetary Policy and Financial Institutions in Developing Countries
6	Mid-Term (October 24th or 31st : TO BE CONFIRMED)
7	Finance, Growth and Development
8	Financial Liberalization and Repression
9	Financial Crisis
10	
11	Financial System and Monetary Management
12	Caribbean Monetary Issues
13	Review Session