

Faculty of Economic, Social and Political Sciences



ECON3570 Monetary Theory

[30h] 3.5 credits

Teacher(s): Raf Wouters
Language: English
Level: Third cycle

Aims

The course aims at providing rigorous analytical tools to evaluate the role of monetary shocks and of monetary policy in actual economies.

The focus is on the understanding of the various " transmission mechanisms " by which money shocks can have the kind of aggregate real and nominal effects that the data suggest they (may) have.

The role of a Central Bank, what it can do or not do, what are the consequences of choosing specific policy instruments and operating procedures should be discussed against this background.

Main themes

More specifically, the focus will be on:

- brief comparisons of different ways of introducing money in an intertemporal general equilibrium framework (money in the utility function, cash-in-advance, shopping-time models);
- connections between money creation and public finance issues (inflation tax, hyperinflation, optimal quantity of money) ;
- real effects of monetary shocks in flexible vs sticky price models ;
- role of money in an open-economy with flexible or fixed exchange rates, either in a two-country setup or in a small open economy model ;
- credit channel of monetary policy (money in imperfect capital market setups) ;
- monetary policy issues (time consistency, instruments and objectives, interest rates and monetary policy).

Content and teaching methods

The starting point is an intertemporal general equilibrium model with money. The methods needed to work with these models are those now familiar in modern dynamic macroeconomics. These models are used to evaluate the various channels by which monetary shocks can have real and nominal effects. Quantitative implications are examined through numerical simulations and compared to the available empirical evidence. Special emphasis is given to expectations and the various ways of modelling nominal rigidities. Policy issues are evaluated in this setup.

The contents of the lectures will be based on material drawn from Walsh (1998) -see reference below- The focus will be on the understanding of a few key models. Exercises based on Walsh(1998) will be left as home-works and next discussed in class.

Other information (prerequisite, evaluation (assessment methods), course materials recommended readings, ...)

Prerequisites : Advanced Macroeconomics I

Evaluation : homeworks + oral exam

Support : C.E. Walsh, Monetary Theory and Policy, MIT Press, 1998, ISBN 0-262-23199-9

Other credits in programs

ECGE3DS/EF Diplôme d'études spécialisées en économie et gestion (Master (5 credits) in business administration) (économie financière)