Monetary theory, institutions and policy (60h – 9CFU)

Prof. Enrico Sergio Levrero
enricosergio.levrero@uniroma3.it

Course learning objectives and skill acquisition

The course is structured into two modules. The first module (30 hours) aims to provide students with the tools needed to understand the functioning of monetary economies and the operative aspects of Central Bank monetary policies. It explains what money is, the debate on its origins, the different approaches to the determinants of the demand for money and its supply, monetary policy instruments and the structure of interest rates. The lectures of this first module are held in Italian. The second module (30 hours) concentrates on the relationships between money, prices, and outputs in the long and short run. It also analyses the debate on rules and discretion, the Taylor rule, and the sustainability of public debt. These themes are addressed according to different approaches.

Assessment

The course assessment is based on both written and oral examinations. As part of the final assessment, short essays on aspects related to monetary policy issues, money endogeneity, the Taylor rule, the Gibson Paradox and the sustainability of public debt may be submitted.

Course general schedule

First Module (30 hours, held in Italian)

1. Money, monetary institutions and the financial markets

1.1 The origin of money and its functions – 1.2 The degree of substitutability between financial assets and the definition of monetary aggregates – 1.3 The objectives of Central Banks - 1.4 The institutional setting of European Monetary Union – 1.5 Open market operations and unconventional monetary policies – 1.6 The interest rate corridor and the floor system – 1.7 The structure of interest rates – 1.8 Inverted and regular yield curves

2. The demand for money

2.1 Why holding money – 2.2 The velocity of circulation of money – 2.3 The demand for money in Fisher and Pigou – 2.4 Keynes's liquidity preference 2.5 Portfolio choices and Tobin's mean-variance model – 2.6 Friedman and the restatement of the quantity theory of money.

3. The supply of money and the debate on its endogeneity

3.1 Monetary base and the deposit multiplier – 3.2 The influence of interest rates – 3.3 Credit rationing – 3.4 The role of Central Bank as a lender of last resort – 3.6 Interest rate volatility, defensive operations and the objectives of monetary policy – 3.7 The Radcliffe Report – 3.8 The analyses of Kaldor and Moore – 3.9 The debate between structuralists and horizontalists – 3.10 The neo-Wicksellian approach

Second Module (30 hours, held in English)

4. Money, prices and output

4.1 Money, prices and output in the neoclassical theory – 4.2 Sidrauski's model (with money into the utility function) – 4.3. The optimum quantity of money – 4.4 Natural and market interest rates in Wicksell – 4.5 Money, prices and output in Keynes – 4.6 The IS-LM model and the debate on the size of monetary and fiscal multipliers - 4.7 The formation of expectations 4.8 New Classical Macroeconomics and the ineffectiveness of monetary policy – 4.9 The New Keynesian synthesis – 4.10 The post-Keynesian approach – 4.11 Cost push and demandpull inflation

5. The transmission channels of monetary policy

5.1 Inside and outside money – 5.2 A taxonomy of the transmission channels of monetary policy –5.3 Tobin's stock-flow model and the wealth effect – 5.4 Poole's model – 5.5 The price puzzle and the cost channel of monetary policy

6. Rules and discretion

6.1 The debate on rules and discretion – 6.2 The Taylor rule – 6.3 The inflation targeting model and its limits – 6.4 The Keynesian alternative to the Taylor rule: the "parking it" approach – 6.5 Monetary policy and income distribution

7. Money and public finance

7.1 The intertemporal public budget constraint – 7.2 Fiscal and monetary dominance regimes – 7.3 Monetary seigniorage and inflation – 7.4 The debate on public debt sustainability – 7.5 Public deficit, saving and investments in a Keynesian model

Teaching material

Textbooks

- Slides of the lessons.
- Teaching material written by the teacher and available online.
- M. Arcelli, L'Economia monetaria e la politica monetaria dell'Unione Europea, Cedam, 2000
- C.A.E Goodhart, Money, information and uncertainty, Second edition, Macmillan, 1989, pp. 24-50, 51-57, 129-137
- M. Lavoie, Post-Keynesian Economics: New Foundations, Edward Elgar, 2014, pp. 186-225 and 245-252
- C.E. Walsh, Monetary Theory and Policy, third edition, The Mit Press, 2010, pp. 21-24, 33-71, 134-162, 195-209, 465-475 (Module 1 and 2)

Additional readings

- N.S. Balke and K.M. Emery, "Understanding the price puzzle", Economic Review— Fourth Quarter 1994, Federal Reserve Bank of Dallas, pp. 15-26

- R. Ciccone, "Public Debt and Aggregate Demand: Some Unconventional Analytics", in E.S. Levrero, A. Palumbo and A. Stirati (eds), Sraffa and the Reconstruction of Economic Theory: volume 2. Aggregate Demand, Policy Analysis and Growth, Palgrave Macmillan, 2013, pp. 15-28
- B. Friedman, "Crowding Out or Crowding In? Economic Consequences of Financing Government Deficits", Brookings Papers on Economic Activity, 3:1978, pp. 599-603 and 609-620
- W. Poole, "Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model",
The Quarterly Journal of Economics, 84, 2, 1970), pp. 197-203
- J. Smithin, The theory of interest rates, in P. Arestis and M. Sawyer, A Handbook of Alternative Monetary Economics, Edward Elgar, 2006, pp. 273-290
- J. Tobin, "Liquidity Preference as Behavior Towards Risk", The Review of Economic Studies 25, 2, 1958, pp. 65-86
- M. Vernengo, Money and inflation, in P. Arestis and M. Sawyer, A Handbook of Alternative Monetary Economics, Edward Elgar, 2006, pp. 476-489 (Module 1 and 2)
- C. E. Walsh, "Teaching Inflation Targeting: An Analysis for Intermediate Macro", Journal of Economic Education, Fall 2002, pp. 333-346.