

International Monetary Economics, EC6012

Course Outline

Stephen Kinsella
Department of Economics,
Kemmy Business School,
University of Limerick, Ireland
stephen.kinsella@ul.ie

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1 Introduction

Monetary economics concerns the relationship between real and nominal variables. International monetary economics considers these relationships in the context of an open economy. The aim of this course is to develop simple models to evaluate the effects of policies on inflation, employment, real interest rates, and production. Over time the institutions of money and credit have changed and developed, leading to different relationships in different markets. Money worked differently in the pre-capitalist world, and its working has changed further as capitalism has developed from the Craft Economy of family firms and family farms to the world of modern industry and hi-tech. These changes will be explored together with the development of monetary theory. Banking systems also developed historically, reflecting many of the same pressures that led to the development of industry, and the fundamentals of banking have changed over time. Some basic models will be developed at the end of the course. The course contains four parts, each building on the other.

- I. Overview: History and Theory.
- II. The Circular Flow: Money vs Goods.
- III. The Development of Leverage: Banking, Credit and the State.
- IV. Modern Money.

1.1 Learning Outcomes

At the end of this course, students should be able to

- describe the development of major international institutions like the World Bank, the IMF, and the EU;
- give a brief account of some simple models used in evaluating monetary policy.

1.2 Lecturer Contact Details

My office is AM068a, office hours are 12–1pm on Tuesdays or by appointment. Contact me by email at stephen.kinsella@ul.ie.

1.3 Assessment

Assessment will consist of an end of term exam worth 60% and a group presentation worth 40%. A sample exam will be distributed in week 6 of term. The exam is an essential part of the assessment, and each part of the course assessment must be passed.

The presentation will be on one of the models taught in the class: the group will be expected to present the fundamentals of the model to the class. Marks will be given for accuracy of material, structure of presentation, relevance of material, use of graphic displays and general preparedness. Feedback will be given in the following format:

Criteria	Marks (1-5, 5 =very good)	Comments
Opening		
Clarity of Argument		
Literature Review		
Interpretation		
Fluency		
Use of Audio-Visual Aids		
Discussion Skills		

With respect to repeats, a student would normally carry the course work marks to be incorporated into the overall repeat exam grade.

2 Lecture Outline & Layout

Lectures are 2 hours long and participatory. This is a Master's class, so students are expected to have read the lecture material before the lecture. Slides used during the lectures will be provided during the lectures and online at <http://www.stephenkinsella.net>.

The layout for the course is as follows

Week	1	2	3	4	5
	Lecture	Lecture	Lecture	Lecture	Lecture
			Tutorial	Tutorial	Tutorial
Week	6	7	8	9	10
	Lecture	Lecture	Lecture	Lecture	Lecture
	Tutorial	Presentation	Presentation	Presentation	Presentation
	Sample Exam out				
Week	11	12	13	14	
	Lecture	Lecture		Exam	
	Presentation	Seminar	Recap		

Review of intermediate open economy macroeconomics Primitive concepts review. AS-AD, Balance of Payments, Circular Flow models in open economies. 'Money' measurement and definition. Macroeconomic objectives, The money concept s origin, definition and current role ; different types of money – commodity money, fiat money, etc; Measuring the money supply – M0, M1, M2, etc ; Money supply counterparts – the “causes” of money supply changes ;The demand for money and its determinants ;The repo rate and its impact on the economy; The role of all the other interest rates in the economy; The monetary transmission mechanism; How the Reserve Bank conducts monetary policy; The reason for having inflation targets. [Two lectures, Reading: Leddin and Walsh (2003, Chapters 2 and 3)]

Survey of the history of money and banking. Early use of precious metal, use of money to pay taxes and tithes, to support trade. Roman money. Money and trade. Money based on precious metals; Early token money, used to pay rents; Earliest paper money. Money and the State—the Chartist principle; Development of banking, convertibility and reserves. The ‘money multiplier’; Suspension of convertibility, World Wars I and II; Modern money and the Central Banks. [Three lectures, Reading: Blaug (1968, Chapter 1)]

Theory I: Money as a medium vs. money as an asset. The Quantity Theory, early statements. Determining the price level or the interest rate? The price level and circulation; the question of ‘full monetization’. The price level and demand theories. Money as an asset: Liquidity and liquidity preference. The role of uncertainty. Supply and demand theories of interest. The ‘natural rate of interest’. Relation of monetary theory to production and distribution – the Classical Dichotomy. [One lecture, Reading: <http://cepa.newschool.edu/het/essays/money/quantity.htm>, Kinsella]

Theory II: The development of Hicks’ thinking on money—from the IS-LM to endogenous money. Contrasting Hicks and Keynes, Friedman and Hayek. Hicks separates the ‘transactions demand’ as part of the more or less mechanistic ‘circular flow’, and sees a spectrum of liquidity. This leads naturally to the development of the IS-LM model. [One lecture. Reading: Bordo and Schwartz (2002)]

Circulation and ‘full monetization’ in a coinage system. Given a model of production and distribution, how can we show that all transactions in the economy will be carried out with a definite quantity of money? How much money will be required? Will this be a stable relationship? Contrast with token money and with bank money. [One lecture, Reading: Nell (1998, Chapter 7)]

Money and the real economy: the ‘Classical Dichotomy’ In what ways does ‘money matter’? What kinds of macroeconomic results are different when money ‘is included’? Are non-monetary models therefore defective? [One lecture Reading: Blaug (1968, Chapter 4)]

Banking Credit and the State: the Development of Leverage Convertibility and the money multiplier. What is the money supply? Does causality run from money to spending and output, or does money passively react? Can the money supply be governed by adjusting ‘reserves’? Is this a market process? [One lecture, Reading: TBA]

Nice Models of Money and exchange rates under flexible prices Cagan model of hyperinflations. Money demand. Monetary approach to the exchange rate. Two- country cash-in-advance models. Pricing nominal assets. [Two lectures, Reading: Obstfeld and Rogoff (1996, Chapters 5)]

Nominal price rigidities Mundell-Fleming and Dornbusch models. Empirical evidence on sticky prices. Issues in the choice of exchange rate regime. [Two lectures, Reading: Obstfeld and Rogoff (1996, Chapters 6, 8)]

3 Readings

Readings not available online will be scanned and made available for purchase from the print room.

4 Presentations

Presentations will be made on the following papers in the following areas. All papers are available at <http://www.stephenkinsella.net/?p=148>. We’ll set a timetable for presentations in the first lecture.

Presentation 1 Robert Mundell, *The Pure Theory of International Trade*.

Presentation 2 Lloyd A. Metzler *Tariffs, the Terms of Trade, and the Distribution of National Income*

Presentation 3 Harry G. Johnson *The Transfer Problem and Exchange Stability*

Presentation 4 Gottfried Haberler *Some Problems in the Pure Theory of International Trade*

Presentation 5 H. W. Singer, *The Distribution of Gains between Investing and Borrowing Countries*

References

Mark Blaug. *Economic Theory in Retrospect*. Heinemann International, 2nd edition, 1968. URL 330.1.

Michael D. Bordo and Anna J. Schwartz. Charles goodhart's contributions to the history of monetary institutions. *NBER Working Paper Series*, (8717):1–31, 2002. URL <http://www.nber.org/papers/W8717>.

S. Kinsella. New school history of economic thought website. URL <http://cepa.newschool.edu/het/>.

Anthony J. Leddin and Brendan M. Walsh. *The Macroeconomy of the Eurozone: An Irish Perspective*. Gill and Macmillan, 1st edition, 2003. URL <http://www.gillmacmillan.ie/Ecom/Library3.nsf/CatalogByCategory/DA55B901FD6459BB80256C1C003FEE1F?OpenDocument>.

Edward J. Nell. *The General Theory of Transformational Growth: Keynes After Sraffa*. Cambridge University Press, 1998. URL <http://www.amazon.com/General-Theory-Transformational-Growth-Keynes/dp/052159006X>.

Maurice Obstfeld and Kenneth Rogoff. *Foundations of International Macroeconomics*. Cambridge, MA: MIT Press, 1996. URL <http://www.amazon.com/Foundations-International-Macroeconomics-Maurice-Obstfeld/dp/0262150476>.