LEAD CITY UNIVERSITY
Faculty of Social and Management sciences
Department of Economics

COURSE PARTICULARS

Course Code:	ECO 417
Course Title:	Monetary Theory and Policy
Number of Units:	2
Status:	Elective

LECTURER DETAIL

Name:	Prof. W. O. Akerele
Qualifications:	B.Sc, M.Sc & Ph.D (Econs)
Phone:	08023265030
Email:	williamakerele@yahoo.co.uk
Area of Specialization:	Labour Economics

COURSE DESCRIPTION

The class will consist of three parts. In the first part, we will study money and related variables such as inflation and interest rates. This includes study of the banking system and various institutions such as the Central Bank. The second part of the course examines monetary policy. Once we understand the relationships between money, interest rates, and inflation, we can ask what the optimal interest rate policy is, and how to implement it. The third part of the course examines interesting global monetary episodes. Is there a common source of inflation? Credit crises also occur on occasion in the developing and developed countries. How should the government respond to credit crises?

COURSE OBJECTIVES

Students will learn the various monetary indicators (interest rates, inflation, etc.) that are mentioned everyday in the press and used daily by people everywhere. Students will learn to calculate these measures as well as their strengths and weaknesses.
Students will learn how monetary policy is implemented, both at the aggregate level (how the money supply is determined) and the institutional level (how the Central Bank regulates banks).
Students will learn to apply the knowledge gained in the class to interesting monetary episodes such as hyperinflation in Nigeria.
Students learn quantitative skills by working with the mathematical models that relate monetary policies to their effects on the monetary economy.

Problem solving is emphasized, by giving students a set of government policies and asking them to predict the effects on the economy or the reverse.

ASSESSMENT

Class Tests	15%
Term Paper	10%
Class Attendance	5%
Semester Examination	70%
Total	**100%**

TEACHING PLAN

Week	**Topic**
Week One:	Foundations of Monetary Theory
Week Two:	Demand for money
Week Three:	The classical quantity theory of money
Week Four:	The Keynesian Approach
Week Five:	Modern quantity theory of money
Week Six:	Theory of inflation
Week Seven:	Theory of interest rate determination
Week Eight:	Supply of money
Week Nine:	Credit and Banking
Week Ten:	Monetary policy and techniques of money control
Week Eleven:	Transmission mechanism of monetary policy

READING LISTS

Bofinger, Peter, (2001). *Monetary Policy: Goals, Institutions, Strategies, and Instruments*, Oxford University Press.

Blinder, Alan, (1998). *Central Banking in Theory and Practice*, The MIT Press.

Frederic S. Mishkin. *The Economics of Money Banking and Financial Markets*, 8th Edition, Pearson Addison Wesley (ISBN: 0321287266).

Laidler, David, (1993). *The Demand for Money: Theories, Evidence and Problems*, Fourth Edition, Harper Collins Publishers.

Mankiw, Gregory, (ed.), (1994). *Monetary Policy*, The University of Chicago Press.

McCallum, Bennett, (1989). *Monetary Economics: Theory and Policy*, Prentice Hall Publishers.

Scarth, William, (1996). *Macroeconomics: An Introduction to Advanced Methods*, Second Edition, Dryden Press.

Simeon Ibi-Ajayi and Oladeji O. Ojo (2006). *Money and Banking, Analysis and Policy in the Nigerian Context*.

Taylor, John, (ed.), (1999). *Monetary Policy Rules*, The University of Chicago Press.

Vaish M. C. (2004). *Monetary Theory*, Fifteenth Edition, Vikas Publishing House PVT Ltd., New Delhi.

Walsh, Carl, (2003). *Monetary Theory and Policy*, Second Edition, The MIT Press.

Woodford, Michael, (2003). *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press.

TUTORIAL QUESTIONS

1a Briefly explain the concept of monetary theory

b. Describe the Fisher equation of exchange

2. How does the modern quantity theory compare with Keynes' liquidity preference theory?

3. In the light of Keynes' proposition, why do you think people hold money?

4. a. Discuss the effects of inflation on the economy

   b. Explain how inflation can be controlled in a market economy

5. a. Discuss the functions of interest rate

   b. Mention three theories of interest rate and explain the limitations of the classical theory of interest rate

6. Explain the various instruments of monetary policy, discuss the effectiveness of bank rate and open market operations as instruments of monetary policy in combating inflation.

7. a. Explain what is meant by money supply

   b. What are the major components of money supply in Nigeria

8. Explain in details the static and dynamic role of money in the economy.

9. a. What is money multiplier?

b. Derive a money multiplier of a capitalist economy

10. a. If a bond of the value of ₦2,000,000 carries 8% interest in the Nigeria money market, what will be the value of the bond in the market when the market value rises to 12% and when it falls to 4%?

b. If the nominal money supply in Nigeria was ₦ 100,000 million in 1990 and #120,000 million in 2013, the index of retail price for 2013 was 240 (1990 = 100 base year), calculate the real money supply in 1990.

11. a. Explain the two transmission mechanism as stated by the Keynsian and monetarist

b. How can the two approaches be reconciled.

12. Using appropriate graphs show and explain the major differences between transactions demand for money and asset demand for money.