



# B.E. International Program

## Faculty of Economics, Thammasat University



### Course Outline

#### EE 432 Monetary Theory and Policy

<b>Semester:</b>	2/2011 (January 9 – May 20, 2012)
<b>Instructor:</b>	Dr. Runchana Pongsaparn
<b>Lecture Time:</b>	Wednesdays and Fridays, 8.00-9.30 a.m.
<b>Lecture Venue:</b>	203, Faculty of Economics
<b>Prerequisite:</b>	EE312

#### Course Description:

This course aims to explore both the theoretical and practical aspects of monetary economics to provide an insight into real-life monetary policy-making. The first and second parts of the course review theoretical frameworks pertaining money, monetary policy and exchange rate to serve as a solid background for subsequent parts. The part on monetary theory then ties together related theoretical background on the formulation of monetary policy, which has evolved through several decades of development in macroeconomic theories. What then follows is a theoretical exposition of the role of credit and banking.

Having laid out a firm theoretical background, the course will then turn to actual policy-making of monetary policy. Monetary policy implementation in Thailand along with exchange rate policy will be thoroughly discussed. The course will also look into financial crises to draw some lessons from policy-making aspects, which will include a review of unconventional monetary policy as crisis response measures and a practical example of the fiscal and monetary interaction.

#### Course Outline:

##### Part I Money and Related Theories

- The theory of money demand
- Money supply and money creation process
- Money and inflation (IS/LM framework)

##### Part II Basics on Monetary Policy and Exchange Rate

- The conduct of monetary policy
- Transmission mechanism of monetary policy
- Exchange rate and international financial system
- Models of exchange rate crises

### **Part III Monetary Theory**

The history of monetary theory  
Rule vs discretion and the problem of inflationary bias  
Theoretical solutions to inflationary bias problem  
Understanding the New Keynesian framework  
Why rule is still superior to discretion under the New Keynesian Framework

### **Part IV Credit and Banking**

Credit, money and aggregate demand  
Banks, allocation and risk-sharing

### **Part V Practical Aspects of Monetary Policy**

Monetary Policy in Thailand  
Evidence of Transmission Mechanism: the case of Thailand  
Understanding monetary operations  
Exchange rate policy under inflation targeting and the inconsistent trinity

### **Part VI Understanding Financial Crises and Unconventional Monetary Policy**

The Asian financial crises of 1997-99  
Credit crunch and financial disintermediation  
The subprime crisis and unconventional monetary policy  
The euro debt crisis: fiscal and monetary interaction

#### **Recommend Readings:**

Walsh, C.E. 2010. Monetary Theory and Policy MIT Press.

Mishkin, F.S. 2010. The Economics of Money, Banking, and Financial Markets. PEARSON Addison Wesley.

Lecture notes and references

#### **Grading Policy:**

Mid-Term Examination	50%	(February 29, 2012, 08.00 – 09.30)
Final Examination	50%	(May 12, 2012, 13.30 – 16.30)

**Note:** 1. The lecturer retains her right to give a final grade basing on her criteria.  
2. Topics above may be adjusted if necessary.

#### **Remarks:**

- ◆ Second semester begins Jan. 9, 2012
- ◆ Period of withdrawal without "W" Jan. 9-23, 2012
- ◆ Mid-Term Examination Feb. 27 – March 3, 2012
- ◆ Last day of withdrawal with "W" March 21, 2012
- ◆ Last day of class Apr. 29, 2012
- ◆ Final Examination May 4 - 20, 2012