



# **MONETARY POLICY AND THEORY**

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# LOGISTIC INFORMATION: ABOUT INSTRUCTOR

- Instructor: kittichai Saelee
- Contact: kittichai\_lee[at]econ.tu.ac.th
- Office hours: Room#516\* (By appointment only)

Students are required to book an appointment using your school Gmail account. To activate the account, browse to

<http://www.checkmail.econ.tu.ac.th/>

# LOGISTIC INFORMATION: EVALUATIONS

- Assignment/Quiz 10%
- Group project 10%
- Midterm exam 40% (Oct, 4th : 12.00-14.00)
- Final exam 10% (Dec, 18<sup>th</sup>: 13.30 – 16.30)

# LOGISTIC INFORMATION: READING MATERIALS

- Lecture contents are drawn from several sources.
  - Please refer to the reading lists outlined in the syllabus.
- Organizational structure closely follows the outline in Mishkin (2016).
- Class materials will be posted on BE Moodle. (passcode = 5986)

## LOGISTIC INFORMATION: CLASS RULE

- No make-up exam.
- No social media and no Facebook live.
- I do not take class attendance, but I encourage your active participation in class.

# LOGISTIC INFORMATION: ACTIVE PARTICIPATION

- During the lecture, I will ask some questions.
- Students are free to share your thoughts and opinion.
- Your active participation will be rewarding!
  - 5 participations = 1 points
  - Total of 5 extra points

## LOGISTIC INFORMATION: GROUP PROJECT

- Part of this course will survey an in-depth analysis on Global financial crisis issues.
- I will do the presentation for the US Subprime.
- You are responsible for other financial crises.
- Finally, I will wrap up the key take away that economists have learnt from different crises.

# LOGISTIC INFORMATION: GROUP PROJECT

- Country lists
  - Scandinavia crisis : Norway, Sweden and Finland (1 country)
  - Japan (1 country)
  - Mexico and Argentina (2 countries)
  - Thailand (1 country)
  - PIGS = Portugal, Iceland, Greece and Spain (4 countries)

# LOGISTIC INFORMATION: GROUP PROJECT

- Content should include:
  - Background info about the country (country profile)
  - Events leading up to the crisis
  - Crisis mechanism and Impacts
  - How did it get spread out? (contagious)
  - Policy responses

# LOGISTIC INFORMATION: GROUP PROJECT

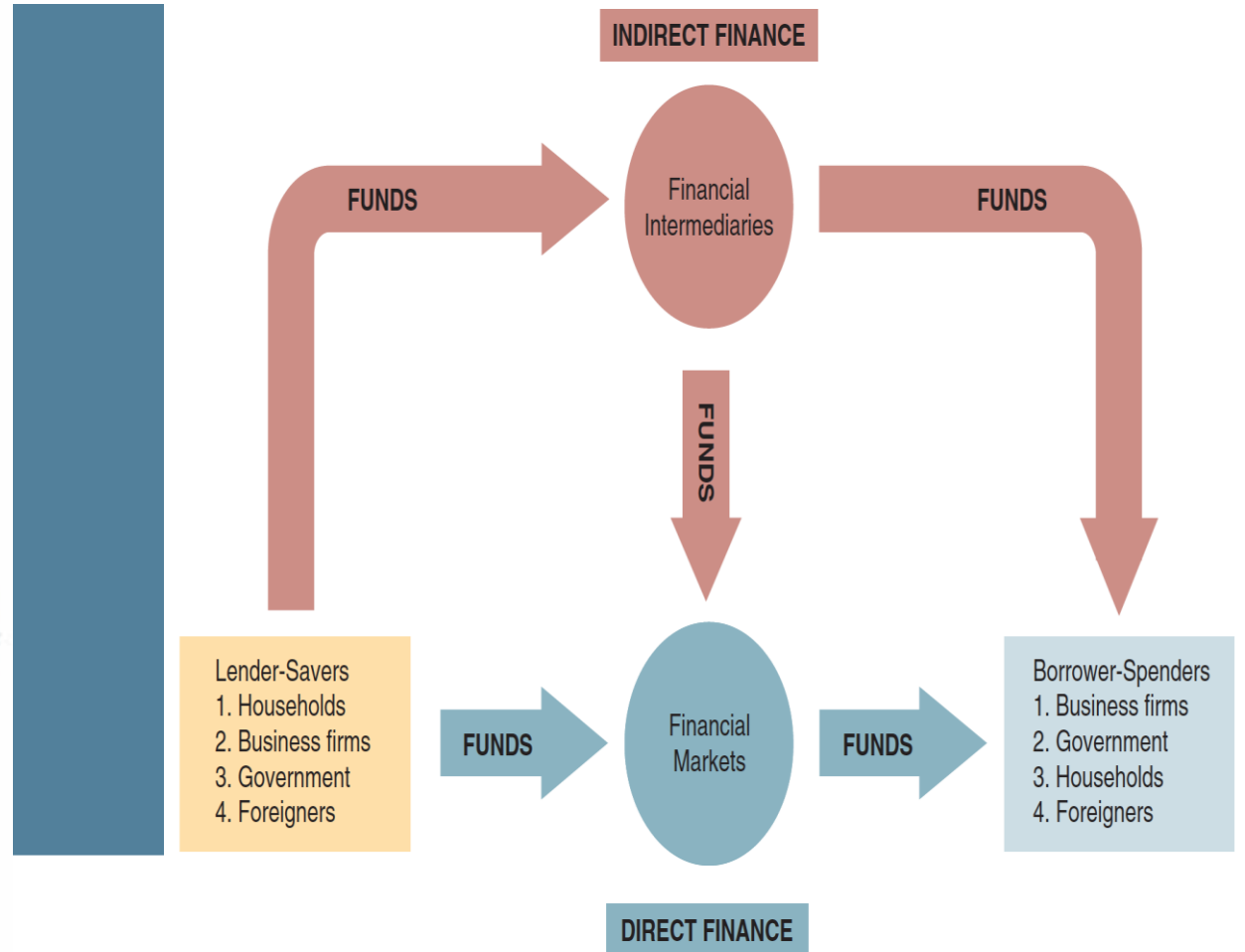
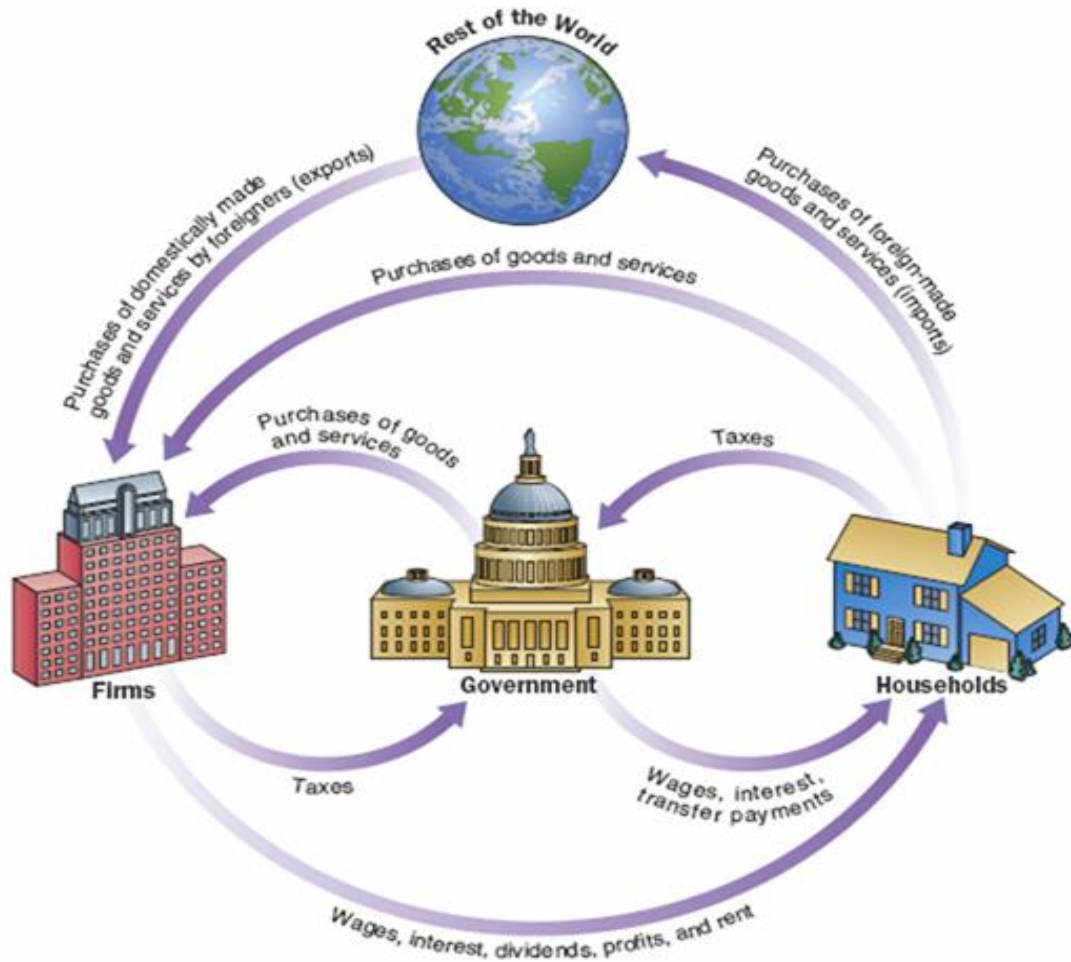
- Group of 3 members (By Aug 21<sup>st</sup> in class)
  - Topic will be randomly drawn.
- Output to be submitted.
  - 10-page essay (executive summary) .
  - Presentation slides
- Each group is required to present your work. (20 mins)
  - Should be around November!



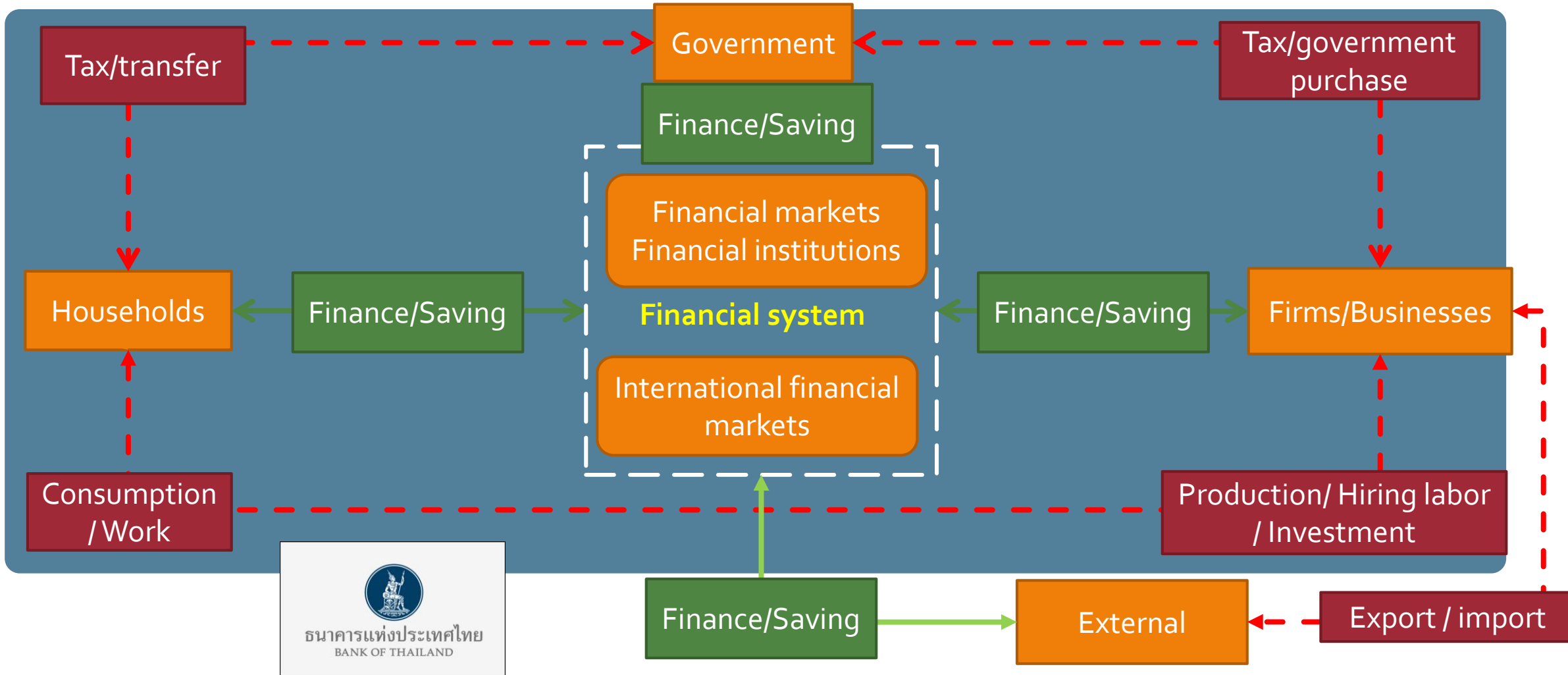
# COURSE OVERVIEW: WHAT IS THIS COURSE ALL ABOUT?

- This course deals with “**money, financial system, macroeconomy, and Central banking**”
  - Money = means of payment
  - Macroeconomy = Real sector
  - Financial system = Financial sector
  - Central banking = Doing what central banks normally do

# FINANCIAL SYSTEM AND MACROECONOMY



# FINANCIAL SYSTEM, MACROECONOMY AND CENTRAL BANK



# COURSE OVERVIEW

- This course is divided into 5 modules
    - Central banking and monetary policy
    - Monetary theory model Midterm exam

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  - Theory of optimal monetary policy and Practical monetary policy
  - In-depth survey on financial crises.
  - Recent on issues monetary and financial stability . Final exam
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# AGENDA

Logistic information

Course overview

Money, financial system and  
macroeconomy

Origin of central bank and monetary  
policy



# ORIGIN OF CENTRAL BANK: A BRIEF HISTORICAL CONTEXT

- The landscape of modern financial system has been greatly influenced by the innovations and developments during the early of 14<sup>th</sup> century – e.g. **Dutch origins**.
  - Notion of national state and government was formalized – e.g. Use of coins and Seigniorage.
  - First commercial banks established in 1397 (but in Italy) – e.g. Inside money created
  - Mercantilism: trade, credit, national and international payment system – e.g. paper money and notes

# ORIGIN OF CENTRAL BANK

- Central banks were then developed around 16<sup>th</sup> and 17<sup>th</sup> century.
  - 1668 : Sveriges Riksbank
  - 1694: Bank of England.
- They both were established as **a banker of state.**
- As time evolved, central banks were chartered with more functions.

# ORIGIN OF CENTRAL BANK: ROLES AND FUNCTIONS

- Issue notes
  - Problems with coins! → Bank notes
  - Privately-issued note → Government note – e.g. Monopolization (Bank charter act: 1844)
- Lender of the last resort – e.g. Bank of England (Panic 1886)
  - "to avert panic, central banks should lend early and freely (ie without limit), to solvent firms, against good collateral, and at 'high rates'".

# ORIGIN OF CENTRAL BANK: ROLES AND FUNCTIONS

- Clearing house
  - The concept of check began accustomed during the 18<sup>th</sup> century.
  - Initially, clearing house was privately run in a centralized location.
  - Bank panic has lead to the role of LOR and paved its way to a creation of government-run centralized platform – e.g. “Reserve account”

# MODERN CENTRAL BANKING

- Modern central banking has been greatly shaped by the past experiences and thoughts.
- Modern central banks have no longer act as the banker of state
  - Separation principle between Central bank and Ministry of finance.
  - Central bank independence.

# MODERN CENTRAL BANKING

- Main functions of central bank
  - Issue bank notes and coins.
  - Maintain clearing house system
  - Regulate money supply and conducting monetary policy
  - Financial regulation and supervision

# CENTRAL BANK AND MONETARY POLICY

- Monetary policy is one of the greatest innovations invented.
- In the past, central bank had **no control in monetary policy** because of the full convertibility. (to ensure trust)
  - Full convertibility → Stable currency value
- **Isn't it stable currency value that actually generates trust?**

# CENTRAL BANK AND MONETARY POLICY

- Central bank began realizing that trust can be established by achieving price stability.
  - Full convertibility is merely a way to achieve the price stability.
- Full convertibility (**in various forms**) was abandoned; central bank directly aims to maintain price stability by **regulating appropriate amount of money supply**.

# CENTRAL BANK AND MONETARY POLICY

- Two common observations empirically noted:
  - Central bank observes that “the amount of money can affect inflation and output.” (why?: answers given in monetary theory)
  - Economy is usually hit by shocks – e.g. generating business cycle fluctuations.
- Luckily, central bank is the sole supplier of money and reserve.

# CENTRAL BANK AND MONETARY POLICY

- Adjustment in the reserve will affect the amount of money, credit, interest rates, and hence output and price.
- These have therefore established the modern perception and understanding of the role of central banking in monetary policy conduct.
  - Central bank may tame the cycle if having monetary policy appropriately conducted.