

ECO 6183: EXPLORATIONS IN MONETARY ECONOMICS

Course Outline and Reading List

Instructor: Professor *Marc Lavoie*
(562-5800, ext. 1687)

Fall 2006
Thursday, 8:30 - 10:50

Office hours: Wednesday: 11:30- 12:50 or by appointment

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(this also gives access to the ROBINSON website)

A. Objectives

To demonstrate that there exists an alternative and coherent view of money and monetary economics which is distinct from the standard neoclassical framework; to understand what the major features of this alternative are; and to comprehend the links between this alternative and the so-called New Consensus view, which seems to be dominant now among central bankers.

A large section of the course will be devoted to making sure that the accounting of macroeconomic models is right. Every financial asset has a counterpart liability; and budget constraints for each sector describe how the balance between flows of expenditure, factor income and transfers generate counterpart changes in stocks of assets and liabilities. The accounts should be comprehensive in the sense that everything comes from somewhere and everything goes somewhere, or to put it more formally, all stocks and flows can be fitted into matrices in which columns and rows all sum to zero. In the standard neoclassical model, where there is an exogenous stock of money, there is no consistency.

B. Textbooks

There is no compulsory textbook. The course is based on a manuscript that I have written with Wynne Godley, from Cambridge University. The manuscript will be available through my website.

In addition, students are highly encouraged to consult some of the following books, which are good reading:

P. Davidson, *Money and the Real World*, Macmillan, 1972.

P. Davidson, *International Money and the Real World*, Macmillan, 1982.

- N. Kaldor, *The Scourge of Monetarism*, Oxford University Press, 1982.
- W. Godley and F. Cripps, *Macroeconomics*, Fontana, 1983.
- S. Rousseas, *Post Keynesian Monetary Economics*, Armonk, N.Y.: M.E. Sharpe, 1986.
- B.J. Moore, *Horizontalists and Verticalists, The Macroeconomics of Credit Money*, Cambridge: Cambridge University Press, 1988.
- C. Rogers, *Money, Interest and Capital*, Cambridge: Cambridge University Press, 1989.
- L.R. Wray, *Money and Credit in Capitalist Economies*, Edward Elgar, 1989.
- L.R. Wray, *Understanding Modern Money*, Edward Elgar, 1998.
- M. Lavoie, *Foundations of Post-Keynesian Economic Analysis*, Edward Elgar, 1992.
- J. Smithin, *Controversies in Monetary Economics: Ideas, Issues and Policy*, Aldershot: Edward Elgar, 1994.
- G. Deleplace and E.J. Nell (eds), *Money in Motion: The Post-Keynesian and Circulation Approaches*, Macmillan, 1996.
- Louis-Philippe Rochon, *Credit, Money and Production: An Alternative Post Keynesian Approach*, Edward Elgar, 2000.
- L. P. Rochon and S. Rossi (eds), *Modern Theories of Money: The Nature and Role of Money in Capitalist Economies*, Edward Elgar, 2003.
- R. Arena and N. Salvadori (eds), *Money, Credit and the Role of the State: Essays in Honour of Augusto Graziani*, Ashgate, 2004.
- M. Lavoie and M. Seccareccia (eds), *Modern Central Banking: Alternative Perspectives*, Edward Elgar, 2005.

C. Course Outline

FIRST PART: SCHOOLS OF THOUGHT AND THE NEW CONSENSUS

1. *Schools of thought, interest rate determination, and endogenous money* (2 weeks, Sept. 7 and 21)

M. Lavoie, "A primer on endogenous credit-money", in L.P. Rochon and S. Rossi (eds), *Modern Theories of Money*, Edward Elgar, 2003, pp. 506-543.

Fontana and Palacio-Vera, "Monetary policy uncovered: theory and practice", *International Review of Applied Economics*, 2004 (1), pp. 25-42.

M. Lavoie, "Monetary base endogeneity and the new procedures of the asset-based Canadian and American monetary systems", *Journal of Post Keynesian Economics*, Summer 2005.

S.T. Fullwiler, "Timeliness and the Fed's daily tactics", *Journal of Economic Issues*, December 2003, 37 (4), 851-880.

S.T. Fullwiler, "Setting interest rates in the modern money era", *Journal of Economic Issues*, December 2003, 37 (4), 851-880.

Mitlde and Vesterlund, "Steering interest rates in monetary policy – how does it work", *Sveriges Riksbank Economic Review*, 2001 (1), pp. 27-42.

R. Clews, "Implementing monetary policy: reforms to the Bank of England's operations in the money market", *Bank of England Quarterly Bulletin*, Summer 2005.

W. Whitesell, "Tunnels and reserves in monetary implementation", Finance and Discussion papers, 2003-28, Federal Reserve Board.

2. *The New Consensus or the Wicksellian connection* (2 weeks, Sept. 28 and Oct. 5)

Kevin Clinton, "Wicksell at the Bank of Canada", paper presented at the ROBINSON workshop, 2004, see website.

L.H. Meyer, "Does money matter?", *Federal Reserve Bank of St-Louis Review*, 2001, (4), pp. 1-15.

D. Romer, "Keynesian macroeconomics without the LM curve", *Journal of Economic Perspectives*, 2000 (2), pp. 149-169

J.B. Taylor, "Teaching modern macroeconomics at the principle level", *American Economic Review*, May 2000, 90-94.

Walsh, "Teaching inflation targeting: an analysis for intermediate macro", *Journal of Economic Education*, Fall 2002, pp. 333-346.

BMW, “The BMW model: a new framework for teaching macroeconomics for closed and open economies”, Würzburg University, working paper, July 2002.

Lavoie, “A post-Keynesian amendment on the new consensus in monetary policy”, *Metroeconomica*, 57 (2), 2006, 165-192 (sections 1-3).

3. *The New Consensus and its critiques* (1 week, Oct. 12)

Lavoie, “A post-Keynesian amendment on the new consensus in monetary policy” (sections 4-6).

Kriesler and Lavoie, “The new view on monetary policy: the new consensus and its post-Keynesian critique”, working paper, 2005, see website and see Presentations website.

A. Palacio-Vera, “The modern view of macroeconomics: some critical reflections”, *Cambridge Journal of Economics*, September 2005, pp. 747-767.

Arestis and Sawyer, “On the effectiveness of monetary policy and of fiscal policy”, *Review of Social Economy*, December 2004, pp. 441-463. (See also their numerous working papers on the New Consensus on: www.levy.org).

Arestis and Sawyer, “The nature and role of monetary policy when money is endogenous.”, *Cambridge Journal of Economics*, look in the electronic Advanced publication (28 August 2006).

MID-TERM EXAM: OCTOBER 19TH

SECOND PART: STOCK-FLOW CONSISTENT MODELS

4. *The monetary stock-flow approach: intro and a simple model with outside money* (1 week; October 26)

W. Godley and M. Lavoie, *Monetary Economics: An Integrated Approach to Credit, Income, Production and Wealth*, Preface, Introduction, ch.1, 2, 4.

Claudio H. Dos Santos, “Keynesian theorising during hard times: stock-flow consistent models as an unexplored frontier of Keynesian macroeconomics”, *Cambridge Journal of Economics*, vol. 30, 2006, sections 1, 2, 4.

J. Tobin, “Money and finance in the macroeconomic process”, *Journal of Money, Credit and Banking*, 14 (2), May 1982, 172-204.

5. *The monetary stock-flow approach: open economies* (2 weeks; November 2 and 9)

W. Godley and M. Lavoie, *Monetary Economics: An Integrated Approach to Credit, Income, Production and Wealth*, ch. 6 and 12.

M. Lavoie, “The reflux mechanism in the open economy”, in L.P. Rochon and M. Vernengo (eds), *Credit, Growth and the Open Economy: Essays in the Horizontalist Tradition*, Edward Elgar, Cheltenham (2001).

L. Taylor, “Exchange rate indeterminacy in portfolio balance, Mundell-Fleming and uncovered interest rate parity models”, *Cambridge Journal of Economics*, vol. 28, 2004, 205-227.

6. The monetary stock-flow approach: Inventories, pricing, and inflation (1 week; November 16)

W. Godley and M. Lavoie, *Monetary Economics: An Integrated Approach to Credit, Income, Production and Wealth*, ch. 8 and 9.

7. The monetary stock-flow approach: complete models with banks (1 week; November 23)

W. Godley and M. Lavoie, *Monetary Economics: An Integrated Approach to Credit, Income, Production and Wealth*, ch. 10.

W. Godley, “Money and credit in a Keynesian model of income determination”, *Cambridge Journal of Economics*, July 1999, pp. 393-411.

8. The monetary stock-flow approach: inside money with endogenous growth (1 week; November 30)

W. Godley and M. Lavoie, *Monetary Economics: An Integrated Approach to Credit, Income, Production and Wealth*, ch. 11.

M. Lavoie and W. Godley, “Kaleckian models of growth in a coherent stock-flow monetary framework: A Kaldorian view”, *Journal of Post Keynesian Economics*, Winter 2001-2002.

Lance Taylor, *Reconstructing Macroeconomics: Structuralist proposals and critiques of the mainstream*, Harvard University Press, 2004, chapter 8.

D. Student Evaluation

Participation – presence in class (5%);

There will be a two-hour mid-term exam (25%);

There will be a three-hour final exam (40%), which will be held during the exam period;

There is a homework, based on simulations of a SFC model (30%). More information about this assignment will be provided later. Material about how to perform simulations with E-views is to be found on the course website.