

ECO 6183: EXPLORATIONS IN MONETARY ECONOMICS

Professor *Mario Seccareccia*
WLD 010C (562-5800 ext. 1691)
E-mail: <Mario.Seccareccia@uottawa.ca>

Summer 2005
Tuesdays 17:30-20:30/ Thursdays 17:30-20:30
FTX 361

Syllabus

A. OBJECTIVES

To demonstrate that there exists an alternative and coherent view of money and monetary economics which is distinct from the neoclassical framework; to understand what the major features of this alternative are; and to comprehend the debates and controversies surrounding this alternative.

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B: TEXTBOOKS

Since the intention is to rely mainly on individual articles as sources of reading, no specific textbook has been assigned for this course. However, there are several books which do provide with very useful reading on various aspects of the material to be covered in the course. Here's a non-exhaustive list of some of the important works which have been published over the last three decades:

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

P. Davidson, *International Money and the Real World*, London: Macmillan, 1982 (Second Edition, 1992).

N. Kaldor, *The Scourge of Monetarism*, Oxford: Oxford University Press, 1982.

W. Godley and F. Cripps, *Macroeconomics*, London: 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*, Aldershot, U.K.: Edward Elgar, 1989.

M. Lavoie, *Foundations of Post-Keynesian Economic Analysis*, Aldershot, U.K.: Edward Elgar, 1992.

J. Smithin, *Controversies in Monetary Economics: Ideas, Issues and Policy*, Aldershot, U.K.: Edward Elgar, 1994.

G. Deleplace and E.J. Nell (eds), *Money in Motion: The Post Keynesian and Circulation Approaches*, London: Macmillan, 1996.

L.R. Wray, *Understanding Modern Money*, Cheltenham, U.K.: Edward Elgar, 1998.

L.-P. Rochon, *Credit, Money and Production: An Alternative Post-Keynesian Approach*, Cheltenham, U.K.: Edward

Elgar, 1999.*

J. Smithin (ed.), *What Is Money?*, London: Routledge, 2000.

L.-P. Rochon and S. Rossi (eds), *Modern Theories of Money: The Nature and Role of Money in Capitalist Economies*, Cheltenham, U.K.: Edward Elgar, 2003.*

A. Graziani, *The Monetary Theory of Production*, Cambridge: Cambridge University Press, 2003.

L.-P. Rochon and M. Seccareccia (eds), *Dollarization: Lessons from Europe and the Americas*, London: Routledge, 2003.

R. Arena and N. Salvadori (eds), *Money, Credit and the Role of the State: Essays in Honour of Augusto Graziani*, Aldershot, U.K.: Ashgate, 2004.

M. Lavoie and M. Seccareccia (eds), *Modern Central Banking: Alternative Perspectives*, Cheltenham, U.K.: Edward Elgar, 2004.*

G. Fontana and R. Realfonzo (eds), *Monetary Theory of Production: Tradition and Perspectives*, London: Palgrave Macmillan, 2005.

* Previously-used textbook and/or highly recommended book for this course.

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C. COURSE OUTLINE AND READING LIST

1. Fundamental Aspects of Neoclassical Monetary Theory I: The Walrasian Approach

B.J. Moore, *Horizontalists and Verticalists, The Macroeconomics of Credit Money*, Cambridge: Cambridge University Press, 1988, Chapter 1.

C. Rogers, *Money, Interest and Capital*, Cambridge: Cambridge University Press, 1989, Chapter 3.

M. Seccareccia, "Money, Credit, and Finance: History", in P.A. O'Hara (ed.), *Encyclopedia of Political Economy*, Vol. 2, London/New York: Routledge, 1999.

J. Niehans, *The Theory of Money*, Baltimore: Johns Hopkins University Press, 1978, Chapters 1-5.

B.M. Friedman and F.H. Hahn (eds), *Handbook of Monetary Economics*, Vol. 1, Amsterdam: North-Holland, 1990. [See articles in "Part 1 - Money in the Walrasian Economy"]

T.I. Palley, "Milton Friedman and the Monetarist Counter-Revolution", *Eastern Economic Journal*, 19 (1), Winter 1993.

2. Fundamental Aspects of Neoclassical Monetary Theory II: The Wicksellian Connection

C. Rogers, *Money, Interest and Capital*, Cambridge: Cambridge University Press, 1989, Chapters 1, 2 and 5.

J. Smithin, *Controversies in Monetary Economics*, Aldershot, U.K.: Edward Elgar Publishing, 1994, Chapters 4, 5, and 6.

T.M. Humphrey, "Fisherian and Wicksellian Price-Stabilization Models in the History of Economic Thought", *Federal Reserve Bank of Richmond Economic Review*, 76 (3), May/June 1990.

M. Seccareccia, "Wicksellian Norm, Central Bank Real Interest Rate Targeting and Macroeconomic Performance", in P. Arestis and M.C. Sawyer (eds), *The Political Economy of Central Banking*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 1998 [first part on Wicksellian theory only].

M. Seccareccia, "Credit Money and Cyclical Crises: The Views of Hayek and Fisher Compared", in M. Colonna and H. Hagemann (eds), *Money and Business Cycles, The Economics of F.A. Hayek*, Vol. I, Aldershot, England: Edward Elgar Publishing Ltd., 1994.

3. The "New Consensus": Wicksell in a New Bottle

M. Woodford, *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton, N.J.: Princeton University Press, 2003, Chapter 1.

D. Roemer, "Keynesian Macroeconomics without the LM Curve", *Journal of Economic Perspectives*, 14 (2), Spring 2000.

M. Lavoie, "The New Consensus on Monetary Policy Seen from a Post-Keynesian Perspective", in M. Lavoie and M. Seccareccia (eds), *Modern Central Banking: Alternative Perspectives*, Cheltenham, U.K.: Edward Elgar, 2004.

P. Arestis and M. Sawyer, "Monetary Policy when Money is Endogenous: Going beyond the 'New Consensus'", in M. Lavoie and M. Seccareccia (eds), *Modern Central Banking: Alternative Perspectives*, Cheltenham, U.K.: Edward Elgar, 2004.

C. Gnos and L.-P. Rochon, "The New Consensus, the Taylor Rule and Inflation Targeting: A Post-Keynesian Alternative", Mimeograph, February 2005.

4. The Finance Motive and Monetary Circulation I: The Basic Circuit Model

A. Graziani, "Keynes's Finance Motive", *Économies et sociétés*, 21 (9), September 1987.

L.-P. Rochon, "Keynes's Finance Motive: A Re-Assessment", *Review of Political Economy*, 9 (3), July 1997.

R. Realfonzo, *Money and Banking: Theory and Debate (1900-1940)*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 1998, Chapter 1.

A. Parguez and M. Seccareccia, "The Credit Theory of Money: The Monetary Circuit Approach", in J. Smithin (ed.), *What is Money?*, London/New York: Routledge, 2000.

A. Graziani, *The Monetary Theory of Production*, Cambridge: Cambridge University Press, 2003, Chapter 3-6.

5. The Finance Motive and Monetary Circulation: Extensions of Basic Model and Some Controversies

M. Seccareccia, "Post Keynesian Fundism and Monetary Circulation", in G. Deleplace and E.J. Nell (eds), *Money in Motion: The Circulation and Post Keynesian Approaches*, London: Macmillan, 1996.

M. Seccareccia, "Pricing, Investment and the Financing of Production within the Framework of the Monetary Circuit:

Some Preliminary Evidence", in L.-P. Rochon and S. Rossi (eds), *Modern Theories of Money*, Cheltenham, U.K.: Edward Elgar, 2003.

L.-P. Rochon, "The Creation and Circulation of Endogenous Money", *Journal of Economic Issues*, 33 (1), March 1999.

A. Bougrine and M. Seccareccia, "Money, Taxes, Public Spending, and the State within a Circuitist Perspective", *International Journal of Political Economy*, 32 (3), Fall 2002.

L.-P. Rochon, *Credit, Money and Production: An Alternative Keynesian Approach*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 1999, Chapters 1-2.

M. Seccareccia, "Interest Rates, Interest Spreads and Monetary Circulation: Theoretical Framework and Empirical Implications for Macroeconomic Performance", in G. Fontana and R. Realforzo (eds), *Monetary Theory of Production: Tradition and Perspectives*, London: Palgrave Macmillan, 2005.

6. The Post Keynesian Theory of Endogenous Money I: Horizontalism

B.J. Moore, *Horizontalists and Verticalists, The Macroeconomics of Credit Money*, Cambridge: Cambridge University Press, 1988, Chapters 2-6.

M. Lavoie, *Foundations of Post-Keynesian Economic Analysis*, Aldershot, U.K.; Edward Elgar Publishing, 1992, Chapter 4.2.

L.-P. Rochon, "Horizontalism: Setting the Record Straight", in L.-P. Rochon and M. Vernengo (eds), *Credit, Interest Rates and the Open Economy: Essays in the Horizontalist Tradition*, Cheltenham, U.K.: Edward Elgar, 2001.

M. Lavoie, "A Primer on Endogenous Credit-Money", in L.-P. Rochon and S. Rossi (eds), *Modern Theories of Money*, Cheltenham, U.K.: Edward Elgar, 2003.

M. Lavoie, "Monetary Base Endogeneity and the New Procedures of the Asset-Based Canadian and American Monetary Systems", in G. Fontana and R. Realforzo (eds), *Monetary Theory of Production: Tradition and Perspectives*, London: Palgrave Macmillan, 2005.

7. The Post-Keynesian Theory of Endogenous Money: Structuralism

M. Lavoie, *Foundations of Post-Keynesian Economic Analysis*, Aldershot, U.K.; Edward Elgar Publishing, 1992, Chapter 4.3.

A. Cottrell, "Post-Keynesian Monetary Economics", *Cambridge Journal of Economics*, 18 (6), December 1994.

S.C. Dow, "Horizontalism: A Critique", *Cambridge Journal of Economics*, 20 (4), July 1996.

L.R. Wray, "Keynesian Monetary Theory: Liquidity Preference and Black Box Horizontalism", *Journal of Economic Issues*, 29 (1), March 1995.

G. Hewitson, "Post-Keynesian Monetary Theory: Some Issues", *Journal of Economic Surveys*, 9 (3), September 1995.

T.I. Palley, "Accommodationism versus Structuralism: Time for an Accommodation", *Journal of Post Keynesian Economics*, 18 (4), Summer 1996.

L.-P. Rochon, *Credit, Money and Production: An Alternative Keynesian Approach*, Cheltenham, U.K.: Edward Elgar Publishing Ltd., 1999, Chapters 5-6.

8. Money Supply and Interest Rate Determination: Empirical Explanations and Issue of Causality

B.J. Moore, *Horizontalists and Verticalists, The Macroeconomics of Credit Money*, Cambridge: Cambridge University Press, 1988, Chapters 7 and 9.

R. Pollin. “Two Theories of Money Supply Endogeneity: Some Empirical Evidence”, *Journal of Post Keynesian Economics*, 13 (3), Spring 1991 [as well as T.Palley’s comments in this same issue of the *JPKE*].

T.I. Palley, “Competing Views of the Money Supply Process: Theory and Evidence”, *Metroeconomica*, 45 (1), February 1994.

K. Clinton and D. Howard, “From Monetary Policy Instruments to Administered Interest Rates: The Transmission Mechanism in Canada”, *Technical Report No. 69*, Bank of Canada, June 1994.

M. Deriet and M. Seccareccia, “Bank Markups, Horizontalism and the Significance of Banks’ Liquidity Preference: An Empirical Assessment”, *Économies et sociétés*, 10 (2-3), February-March 1996.

J. Stanford, “Is There a Risk Premium in Canadian Interest Rates?”, *Canadian Business Economics*, 5 (4), Summer 1997.

W. Godley, “Money and Credit in a Keynesian Model of Income Determination”, *Cambridge Journal of Economics*, 23 (4), July 1999.

M. Seccareccia and M. Lavoie, “Long-Term Interest Rates, Liquidity Preference and the Limits of Central Banking”, in M. Lavoie and M. Seccareccia (eds), *Modern Central Banking: Alternative Perspectives*, Cheltenham, U.K.: Edward Elgar, 2004.

9. Interest Rates, Distribution and Growth

LL. Pasinetti, *Structural Change and Economic Growth, A Theoretical Essay on the Dynamics of the Wealth of Nations*, Cambridge: Cambridge University Press, 1981, Chapter 8.

M. Lavoie and M. Seccareccia, “Money, Interest and Rentiers: The Twilight of Rentier Capitalism in Keynes’s *General Theory*”, in O.F. Hamouda and J. Smithin (eds), *Keynes and Public Policy after Fifty Years*, Vol. 2, Aldershot, U.K.: Edward Elgar, 1988.

M. Lavoie and M. Seccareccia, “Interest Rate: Fair”, in P.A. O’Hara (ed.), *Encyclopedia of Political Economy*, Vol. 1, London: Routledge, 1999.

J. Smithin, “Interest Rate Operating Procedures and Income Distribution”, in M. Lavoie and M. Seccareccia (eds), *Modern Central Banking: Alternative Perspectives*, Cheltenham, U.K.: Edward Elgar, 2004.

M. Lavoie, “Interest Rates in Post-Keynesian Models of Growth and Distribution”, *Metroeconomica*, 46 (2), 1995.

E.J. Nell, “Wicksell after Sraffa: Capital Arbitrage and Normal Rates of Growth, Interest and Profits”, in G. Mongiovi and F. Petri (eds), *Value, Distribution and Capital*, London: Routledge, 1999.

M. Lavoie, G. Rodriguez, and M. Seccareccia, “Transformational Growth, Interest Rates, and the Golden Rule”, in G.

Argyrous, M. Forstater, and G. Mongiovi (eds), *Growth Distribution, and Effective Demand: Alternatives to Economic Orthodoxy*, Armonk, N.Y.: M.E. Sharpe, 2004.

10. Minskyian Themes: Financial Instability and Credit Crunches

H.P. Minsky, "Financial Instability Hypothesis", in P. Arestis and M. Sawyer (eds), *The Elgar Companion to Radical Political Economy*, Aldershot, U.K.: Edward Elgar, 1994.

M.H. Wolfson, *Financial Crises: Understanding the Postwar U.S. Experience* (2nd Edition), Armonk, N.Y.: M.E. Sharpe, 1994.

S. Keen, "Finance and Economic Breakdown: Modelling Minsky's Financial Instability Hypothesis", *Journal of Post Keynesian Economics*, 17 (4), Summer 1995.

M.H. Wolfson, "Minsky's Theory of Financial Crises in a Global Context", *Journal of Economic Issues*, 36 (2), June 2002.

M. Seccareccia, "Systemic Viability and Credit Crunches: An Examination of Recent Canadian Cyclical Fluctuations", *Journal of Economic Issues*, 22 (1), March 1988.

M. Lavoie and M. Seccareccia, "Minsky's Financial Fragility Hypothesis: A Missing Macroeconomic Link?", in R. Bellofiore and P. Ferri (eds), *Financial Fragility and Investment in the Capitalist Economy: The Economic Legacy of Hyman Minsky*, Vol. 2, Cheltenham, U.K.: Edward Elgar, 2001.

W. Barker and L.R. Lafleur, "Business Cycles and the Credit-Allocation Process: An Institutional Perspective", in Bank of Canada, *Credit, Interest Rate Spreads and the Monetary Policy Transmission Mechanism*, Ottawa: Bank of Canada, 1995.

11. Monetary Policy I: Old-line Monetarism, "Zero Inflation" Targeting, and the Political Economy of Central Banking

Jack Selody, "The Goal of Price Stability: A Review of the Issues", *Technical Report No. 54*, Bank of Canada, May 1990.

B. O'Reilly, "The Benefits of Low Inflation: Taking Stock", *Technical Report No. 83*, Bank of Canada, April 1998.

T.K. Rymes, "On the Costs of Zero Inflation", *Économie appliquée*, 48 (1), 1995.

M. Seccareccia and M. Lavoie, "Central Bank Austerity Policy, Zero-Inflation Targets, and Productivity Growth in Canada", *Journal of Economic Issues*, 30 (2), June 1996.

G. Epstein, "A Political Economy Model of Comparative Central Banking", in G. Dymski and R. Pollin (eds), *New Perspectives in Monetary Macroeconomics*, Ann Arbor: University of Michigan Press, 1994.

T.I. Palley, "The Institutionalization of Deflationary Monetary Policy", in A.J. Cohen, H. Hagemann, and J. Smithin (eds), *Money, Financial Institutions and Macroeconomics*, Boston: Kluwer Academic Publishers, 1997.

M. Seccareccia, "Wicksellian Norm, Central Bank Real Interest Rate Targeting and Macroeconomic Performance", in P. Arestis and M.C. Sawyer (eds), *The Political Economy of Central Banking*, Cheltenham, U.K.: Edward Elgar, 1998

(Second part of paper).

K. Clinton, "Implementation of Monetary Policy in a Regime with Zero Reserve Requirements", *Working Paper no. 97-8*, Bank of Canada, April 1997.

G.H. Sellon and S.E. Weiner, "Monetary Policy without Reserve Requirements: Case Studies and Options for the United States", *Federal Reserve Bank of Kansas City Economic Review*, 82 (2), 1997.

12. Monetary Policy II: Interaction with Fiscal Policy and Competing Views on Monetary Policy

J. Smithin, "Cause and Effect in the Relationship between Budget Deficits and the Rate of Interest", *Économies et sociétés*, 28 (1-2), January-February 1994.

M. Seccareccia and A. Sood, "Government Debt Monetization and Inflation: A Somewhat Jaundiced View", in H. Bougrine (ed.), *The Economics of Public Spending: Debts, Deficits and Economic Performance*, Cheltenham, U.K.: Edward Elgar, 2000.

M. Lavoie, "Monetary Policy in an Economy with Endogenous Credit Money", in G. Deleplace and E.J. Nell (eds), *Money in Motion: The Circulation and Post Keynesian Approaches*, London: Macmillan, 1996.

L.R. Wray, "Government Deficits and Appropriate Monetary Policy", *Économies et sociétés*, 10 (2-3), February-March 1996.

L.R. Wray, *Understanding Modern Money: The Key to Full Employment and Price Stability*, Cheltenham, U.K.: Edward Elgar, 1998, Chapter 6.

M. Seccareccia, "What Type of Full Employment: A Critical Evaluation of 'Government as Employer of Last Resort' Policy Proposal", *Investigación Económica*, 63 (247), January-March 2004.

13. Open Economy and Issues in International Finance

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*, Cheltenham, U.K.: Edward Elgar, 2001.

J. Smithin, "International Monetary Arrangements", in R.P.F. Holt and S. Pressman (eds), *A New Guide to Post Keynesian Economics*, London: Routledge, 2001.

T.I. Palley, "The Economics of Exchange Rates and the Dollarization Debate: The Case against Extremes", *International Journal of Political Economy*, 33 (1) Spring 2003.

L.-P. Rochon and S. Rossi, "Dollarization Out, Euroization In", *International Journal of Political Economy*, 33 (1) Spring 2003.

H. Bougrine and M. Seccareccia, "Alternative Exchange Rate Arrangements and Effective Demand: An Important Missing Analysis in the Debate over Greater North American Monetary Integration", *Journal of Post Keynesian Economics*, 26 (4), Summer 2004.

B.J. Moore, "A Global Currency for a Global Economy", *Journal of Post Keynesian Economics*, 26 (4), Summer 2004.

A. Parguez, M. Seccareccia, and C. Gnos, "The Theory and Practice of European Monetary Integration: Lessons for

North America”, in L.-P. Rochon and M. Seccareccia (eds), *Dollarization: Lessons from Europe and the Americas*, London/New York: Routledge, 2003, pp. 48-69.

M. Seccareccia and M. Lequain, “What Can We Learn from the EMU Model: Lessons for Canada and Britain”, *Journal of European Political Economy* 1 (1), 2005.

D. Student Evaluation

Final grades will be based on one term paper (45%), a final exam (45%), and class participation (10%). The term paper should not exceed 25 type-written pages (in standard font and page length), unless it is heavily mathematical. The paper must be type-written, and all topics must be approved by the instructor by no later than the third week of July. The deadline for the submission of papers is the last day of classes. If students need any guidance on how papers should be presented, in addition to consulting with the instructor there are several books available in the library that can help students. Among the many books, students may wish to consult a small book published right here in Ottawa by: Hugh Robertson, *The Research Essay: A Guide to Essays and Papers*, Ottawa: Piperhill Publications, 1999, as well as consulting with the Academic Writing Help Centre at the following web site: <http://web.sass.uottawa.ca/classroom/awhc/>.

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D. Academic Fraud

Because of the growing number of cases of academic fraud in recent years, the Associate Dean (Academic) of the Faculty of Social Sciences has asked for the collaboration of all the professors to include the following text as an integral part of course outlines:

Beware of Academic Fraud

Academic fraud is an act committed by a student to distort the marking of assignments, tests, examinations and other forms of academic evaluation. Academic fraud is neither accepted nor tolerated by the University. Anyone found guilty of academic fraud is liable to severe academic sanctions.

Here are a few examples of academic fraud:

- *engaging in any form of plagiarism or cheating;*
- *presenting falsified research data;*
- *handing in an assignment that was not authored, in whole or in part, by the student;*
- *submitting the same assignment in more than one course, without the written consent of the professors concerned.*

In recent years, the development of the Internet has made it much easier to identify academic plagiarism. The tools available to your professors allow them to trace the exact origin of a text on the Web, using just a few words.

In cases where students are unsure whether they are at fault, it is their responsibility to consult the University’s Web site at the following address: <http://www.uottawa.plagiarism.pdf>

Persons who have committed or attempted to commit (or have been accomplices to) academic fraud will be penalized. Here are some examples of the academic sanctions which can be imposed:

- *a grade of “F” for the assignment or course in question;*
- *an additional program requirement of between three and 30 credits;*
- *suspension or expulsion from the faculty.*

Last session, most of the students found guilty of fraud were given an “F” for the course and had between three and 12 credits added to their program requirements.

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