

FOURTH SEMESTER

COURSE: MINOR

MONETARY ECONOMICS

PAPER: MINOR – 4.2

COURSE CODE: ECO-MIN4.2

CREDIT POINT: 04

Course Description: This course offers a foundational understanding of money, banking, and monetary policy within a modern economic framework. It introduces the nature, evolution, and functions of money, along with classical and Keynesian theories of money demand. Students will explore the structure and role of commercial and central banking systems, with specific reference to the Reserve Bank of India (RBI) and analyse various monetary policy instruments. Emphasis is placed on understanding inflation dynamics and how monetary policy addresses macroeconomic challenges, particularly in developing countries. The course also includes contemporary discussions on digital currency and cryptocurrencies to provide a well-rounded view of emerging trends in monetary systems.

Course objectives

1. Understand the historical development, classification, and functions of money in modern economies.
2. Examine key theoretical perspectives on the demand and supply of money.
3. Analyse the functioning of commercial and central banks and evaluate their role in money creation and policy implementation.
4. Explore the mechanisms and instruments of monetary policy in both developed and developing country contexts.
5. Understand the causes, effects, and control measures of inflation, including basic theoretical models such as the Phillips Curve.
6. Develop an introductory understanding of digital currency and cryptocurrencies and their relevance to monetary economics.

Learning Outcome

By the end of this course, students will be able to:

1. **Define and describe** the nature, evolution, and functions of money, including its modern forms such as digital and cryptocurrency. (*Remember, Understand*)
2. **Explain and compare** classical, Keynesian, and post-Keynesian theories of the demand for money. (*Understand, Analyse*)
3. **Identify and interpret** the various measures of money supply (M1–M4) and their determinants in the Indian context. (*Understand, Apply*)

4. **Illustrate** the credit creation process and **evaluate** the role of commercial banks and central banks in the economy. (*Apply, Evaluate*)
5. **Analyze and assess** the instruments and objectives of monetary policy, including how they address inflation and unemployment. (*Analyse, Evaluate*)
6. **Distinguish** between types of inflation and **recommend** appropriate monetary tools for inflation control. (*Analyse, Apply, Evaluate*)
7. **Discuss** the relevance of monetary policy in developing economies and **debate** emerging trends in monetary innovations. (*Understand, Evaluate*)

Course Outline	Lectures required	Marks
<p>Unit I: Nature and Functions of Money</p> <p>Definition and evolution of money, functions and classifications of money, role of money in a modern economy, recent trends: Digital currency and cryptocurrency (Introductory overview)</p>	15	25
<p>Unit II: Theories of Demand and Supply of Money</p> <p>Classical theories: Quantity theory of money (Fisher and Cambridge versions), keynesian theory of demand for money (liquidity preference), post-Keynesian approaches (Baumol and Tobin models – basics), money supply: Measures (M1, M2, M3, M4 in India), determinants, and high-powered money.</p>	15	25
<p>Unit III: Commercial and Central Banking</p> <p>Functions of commercial banks, credit creation process, structure and functions of a central bank (with reference to RBI), instruments of monetary policy: CRR, SLR, bank rate, repo and reverse repo, open market operations.</p>	15	25
<p>Unit IV: Monetary Policy and Inflation</p> <p>Objectives and tools of monetary policy, types of inflation: demand-pull vs cost-push, causes, effects, and control of inflation, Phillips Curve: Inflation-unemployment trade-off (introductory level), monetary policy in developing countries</p>	15	25

TOTAL	60	100

Suggested Readings

Mankiw, N. Gregory.

Macroeconomics, 10th Edition, Worth Publishers

Dornbusch, R., Fischer, S., & Startz, R. Macroeconomics, McGraw-Hill, 13th Ed.

Froyen, R. T. Macroeconomics: Theories and Policies, Pearson, 10th Ed.

Friedman, M. A Program for Monetary Stability

Mishkin, F. S. The Economics of Money, Banking and Financial Markets, Pearson

RBI Reports on Monetary Policy and Financial Stability