



Exchange programme Vrije Universiteit

Vrije Universiteit Amsterdam - Exchange programme Vrije Universiteit - 2020-2021

Monetary Economics

Course Code	E_EBE2_MONEC
Credits	6
Period	P5
Course Level	300
Language Of Tuition	English
Faculty	School of Business and Economics
Course Coordinator	prof. dr. W.W. Boonstra
Examiner	prof. dr. W.W. Boonstra
Teaching Staff	
Teaching method(s)	Seminar, Lecture

Course Objective

After successfully completing this course you understand the functioning of the global monetary system. You are able to follow the most important policy discussions in the field of monetary policy and banking supervision and to advise policy makers in this regard. You understand why risk-free banks do not exist, why a modern economy cannot exist without using money and why it is very difficult to make an interest-free financial system work properly.

The modern money creation process also no longer holds any secrets for you. You understand the pros and cons of the fractional reserve banking system, but you also understand the alternative proposals and their specific advantages and disadvantages.

You can place recent developments in a historical and theoretical context. You are also able to understand the various policy measures and their backgrounds. You are able to understand the theoretical considerations that have played a role in recent decisions.

After completing this course:

- you understand the role of money in the economy and the crucial role of the price mechanism in a market economy;
- you understand the role of banks in society and why banks are always risky;
- you understand the money creation process;
- you are able to understand the monetary policy of the central bank;
- understand the role of the various banking supervisors and understand how micro- and macroprudential supervision is structured;
- you understand how financial crises arise and why crises are of all times;
- you understand how the international monetary system works and which institutions play a leading role in it;
- you are familiar with terms such as interest and exchange rates and do you understand their role and functioning;

- you are familiar with the various monetary standards, the concept of the optimum currency area and do you understand the balance of payments;
- do you understand the background of the current euro crisis;
- you are able to interpret current developments in a theoretical and historical background;
- you can participate fully and with knowledge in the social debate around the financial sector.

Course Content

There are many misunderstandings about money and banks. That is why this course is an absolute must for people who want to understand the role of the financial system in a modern economy. The current system is first discussed, with attention being paid to the role of both the central bank and the commercial banks. The money creation process is central here. Alternatives to the current system are also discussed. Among other things, it examines so-called full reserve banking promoted in the 1930s by, among others, Irving Fisher and Friedrich Hayeks proposal for the Denationalization of money. We also consider Silvio Gesells Schwundgeld, Bitcoin and central bank digital currency.

Central to all this is the question of what society can expect from a financial system, the role of prices in the decisions of producers and consumers and the importance of financial stability. In passing, it is explained why a modern economy cannot function without money and why an interest-free financial system is a difficult matter.

Banks are by definition risky. This course therefore covers, among other things, the tasks of banks, the resulting risks and recent developments in bank supervision. Monetary policy, which is the central bank's policy that aims at price stability, is of course also part of the material. Special attention is given to the most current developments, such as the policy of quantitative easing. Concepts such as monetary financing ("turning on the money press"), the so-called "helicopter money" and the so-called Modern Monetary Theory are discussed and stripped of their magical connotation.

We then deal with the international monetary system. That starts with a thorough discussion of "the exchange rate", in several forms, its importance for a country's monetary stability and competitive position and the forces that determine the value of an exchange rate. We also discuss the real effective exchange rate, explaining how countries within a single monetary union and, as in the case of EMU, a single currency can have different real exchange rates. The advantages and disadvantages of a monetary union and of other exchange rate regimes are also discussed, in the context of the theory of the optimal currency areas.

We also discuss historical systems, such as the Golden Standard and the

Bretton Woods System. Naturally, attention is paid to the most important international financial institutions, such as the Bank for International Settlements (BIS), the International Monetary Fund (IMF) and the World Bank (WB). Understanding of these older systems is necessary to understand the current dollar standard.

When dealing with monetary developments over the past decades, we also discuss the balance of payments, the relationship between the balance of payments and the international investment position of countries and the influence that international capital movements can have on the development of the money supply.

We also discuss the subject of financial crises. Among other things, we first briefly discuss the Latin American debt crisis from the 1980s, the Asia crisis at the end of the 1990s and (more extensively) the latest financial crises, including the Subprime crisis (2007/8) and the crisis in the euro zone (2010 with aftermath to this day).

We pay special attention to developments in the euro zone or EMU. In addition, the EMU is tested against the criteria for a so-called optimum currency area. We also discuss the consequences of a possible (partial) break-up of EMU for the member states.

Teaching Methods

The course is mainly given in the form of lectures. In addition, a number of seminars will be provided.

Method of Assessment

The course is concluded with a written exam (max 85 points). Furthermore, a maximum of 15 points can be earned at the tutorials. To pass the exam, it is necessary to score at least 50 points at the written examination.

Literature

We work with the book "The Basics of Money and Banking. From ancient coins to credit and cryptos." (W.W. Boonstra and L. van Goor, 2020, VU University Press). It is indicated per lecture which chapters material should be studied. The book isn't available yet. Relevant chapters will be distributed as pdf on Canvas.

In addition, articles and texts will be prescribed. These will be offered on Canvas .

Target Audience

This course is important for anyone who aspires a career in the financial sector, at supervisors or as a financial policy maker. The

subject, the world of money to banks, touches on many social issues. This makes this subject useful not only for economists, but also for people with a background as a lawyer, sociologist or political scientist, for example.

Additional Information

This course is closely related to banking and / or policy practice. A direct relationship is established between the theoretical insights obtained and their application to concrete cases.

Explanation Canvas

All relevant information, such as that used during the lectures slides, additional literature and information about the lectures and tutorials are accessible via Canvas.

Recommended background knowledge

Macroeconomics I and Macroeconomics II.