

**People's Democratic Republic of Algeria**  
**University of Jijel**  
**Department of Economy**

**Academic year: 2024/2023**

**Level: Master two**

**Monetary economy**

Monetary economy is the branch of **economics** that studies the different competing theories of money: it provides a framework for analyzing money and considers its functions (such as **medium of exchange**, **store of value** and **unit of account**), and it considers how money, for example **fiat currency**, can gain acceptance purely because of its convenience as a **public good**. The discipline has historically prefigured, and remains integrally linked to, **macroeconomics**. This branch also examines the effects of **monetary systems**, including regulation of money and associated **financial institutions** and international aspects.

Modern analysis has attempted to provide **micro foundations** for the **demand for money** and to distinguish valid **nominal and real** monetary relationships for micro or macro uses, including their influence on the **aggregate demand** for output. Its methods include deriving and testing the implications of money as a substitute for other assets and as based on explicit frictions.

**Research areas of monetary economy :**

Traditionally, research areas in monetary economy have included:

- **Empirical** determinants and measurement of the **money supply**, whether narrowly, broadly, or index-**aggregated**, in relation to economic activity.
- Empirical determinants of the **demand for money**.
- **Credit theory of money** (also called debt theory of money), concerning the relationship between credit and money.
- **Debt deflation** and **balance-sheet** theories, which hypothesize that over-extension of credit associated with a subsequent asset-price fall generate **business fluctuations** through the **wealth effect** on **net worth**.
- Monetary aspects studied by **central banks**.
- The monetary/**fiscal policy** relationship to macroeconomic stability.

- The effect of money supply growth on **inflation**.
- The **political economy** of **financial regulation** and monetary policy
- Monetary implications of the asset-price/macroeconomic relation: the **quantity theory of money**, **monetarism**, and the importance and stability of the relation between the money supply and interest rates, the **price level**, and nominal and real output of an economy.
- Monetary impacts on interest rates and the **term structure of interest rates**.
- Lessons of monetary/financial history.
- **Transmission mechanisms** of **monetary policy** as to the macroeconomy.
- **Neutrality of money** vs. **money illusion** as to a change in the money supply, price level, or inflation on output.
- Tests, testability, and implications of **rational-expectations** theory as to changes in output or inflation from monetary policy.
- Monetary implications of imperfect and **a symmetric information** and fraudulent finance.
- **Game theory** as a modeling paradigm for monetary and financial institutions.
- Possible advantages of following a monetary-policy rule to avoid inefficiencies of **time inconsistency** from **discretionary policy**.

