

PROBLEMS OF TEACHING MONETARY ECONOMICS AT THE UNIVERSITY
OF THE WEST INDIES (MONA) - Some Introductory Notes.

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These notes are intended to stimulate discussion on the problems teaching monetary economics in the West Indies. They are by no means exhaustive or indeed adequate in the treatment of the subject. Pressure on my time did not permit this. I might also add that the views stated here are my own, informed perhaps through discussion with my students over the years.

2. In any forward looking dynamic University the quality and utility of 'course teaching' are essentially by-products of research in the related fields, undertaken either within or without the particular University. In the case of the Social Sciences in the Caribbean (due to the highly specific characteristics of the area, the backlog of research requirements etc.) much of this research must of necessity be done within the U.W.I. and in particular by the persons involved in teaching the related courses. I have been able to do a little research in the field of monetary economics. Because of this, and because of the particular views of the teaching process which I hold, the teaching of monetary economics at Mona may have some maverick (and unstable!) qualities attached to it. Certainly each year the course content is significantly modified - reflecting my own learning (by doing!) as there is no significantly useful body of received knowledge available. This introduces some of the unstable qualities of growth, such as, comparing graduates over the years. The course content as it presently stands is not directly equated with similar courses in American and European Universities. Nevertheless the direction is the same: a greater understanding and awareness of the monetary

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issues posed by the environment in which we live. With these preliminaries in mind let us set about examining some of the problems.

3. One of the first questions one might ask is, in which courses do the students get exposed to monetary economics? The two main areas of teaching monetary economics are in the courses designated Monetary Economics and the second half of the International Economics Course which deals with International Monetary Theory and Problems. However, substantial teaching of *monetary economics* is also obtained in the first year Elements of Economics Course, the Principles of Economics and the Caribbean Economics course. Subject to correction by my colleagues, it may be fair to describe the exposure to monetary economics in the first two courses (Elements of Economics and Principles of Economics) as elementary macro-economics in the first year courses with some elementary principles of banking, and a further development of macro-economic theory in the Principles of Economics Course. In both these courses roughly half the time is spent on macro-economic models. In the case of Caribbean Economic Problems, the treatment of monetary issues is far less central - and rightly so. Concentration is on the demonstrating of the growth inhibiting features of the present system, the need for reform and the broad directions of this reform. As we can see, the first two courses cover substantial areas of what is treated as monetary economics - their main omission is insufficient emphasis on the analysis of Central Banking Techniques.

4. Our principal concern however is with the Monetary Economics and International Monetary Economics courses both of which have an explicit monetary orientation in the sense that unlike the other courses the main public policy instruments envisaged are controls over the money and credit systems.

5. The force of a perhaps irrelevant tradition is very obvious in the arrangements here. Thus we have -

- (i) the emphasis on macro-economics i.e. Keynesian formulations (with its comparative statics) qualified by a more or less systematic allowance for the role of such factors as a high export ratio, high import propensities, and high foreign investment ratios. Despite this, the analysis remains essentially short-period. The great part of two major courses (the Elements of Economics, compulsory to all first year students and the Principles speaking for itself as logically the main economics course) is occupied with these models. Thus areas of teaching such as urban economics, growth and development, locational economics, regional economics, environmental economics, integration economics, economics of population, are not systematically taught and sometimes not even offered.
- (ii) the fact that monetary economics itself is offered as a complete course is essentially a reflection of the post 1950 revival of monetary policy in Europe (and America) and the interest shown there. This tradition was to some extent reinforced (or perhaps rationalized!) by the development of financial institutions in the region.
- (iii) as pointed out above, the main monetary economics is taught in two courses (the second half of International Economics and Monetary Economics itself). This separation is extremely artificial and highly anachronistic. It may be that in Europe and America one can justify the separation of

international monetary issues from domestic ones, but in the Caribbean this is both logically and practically untenable. Foreign assets holdings and changes in these are the key determinants and reflectors of domestic credit creation. Expenditure financed by credit creation or contracted, if at all possible by the action of the Central Authorities, manifest themselves more in foreign than domestic transactions. The banking system is essentially a foreign enclave with limited contact and control over the domestic economy. When so-called local banks are established the thin veil of indigenous control is hardly significant. As an allocator of domestically mobilized economic surpluses the banking system does not distinguish between local and foreign capital markets except to display a strong bias in favour of the market with greater 'breadth, depth and resiliency' i.e. the foreign market. As a result of this and innumerable other similar features there can be no logical or practical basis for separating domestic from international monetary economics. My individual solution has been to encourage my students to take both. But what of St. Augustine where no International Economics is offered?

- (iv) finally, we can observe that there is thin justification for offering $1\frac{1}{2}$ courses on monetary problems out of eight possible final year subjects - bearing in mind the significant amount of macro-economics taught in the Principles course. In view of the region's structural and dynamic features my own bias would be in favour of less not more monetary economics.

6. Given that monetary economics is taught, the next question is in what areas must it concentrate?

There are certain broad areas of teaching and research which ought to be (and to some extent are) concentrated on in the West Indies. These areas are not substantially separable but for the sake of convenience in this discussion they are treated as separate.

(a) The first is in the so-called area of 'pure theory'.

This designation in European and American Universities can and has covered a multitude of subjects viz., model building and specification, the pure theory of interest, monetary etc., the application of mathematical techniques to certain problems e.g. portfolio choice. It is the traditions in these Universities to treat all problems where some specified environment, such as the Caribbean provides the parameter, variables, behavioural assumptions etc. as applied and not an issue of pure theory. The assumption here is that the treatment of these issues in North America and Europe is unspecified as regards to environment. This is of course untrue. The behavioural assumptions, the norms of the model, even the methods of thinking and analysis reflects a specific institutional environment, i.e. their own. Thus it is possible to have foisted on us in textbooks on the Theory of Monetary Economics an interminable amount of Keynesian and neo-Keynesian models and their operations. But what can be more institutionally specific than these 'theories'? This myth and the accompanying mystification of theory has allowed for

the widespread intellectual colonisation of non-North Atlantic University teaching of economics. In the West Indies I find my greatest difficulty in teaching is resisting this notion of what is theory and therefore (in the mystification process) what is rigorous and true! Thus to take a simple example. A question posed to a North American (or worse a West Indian studying in North America!) - 'What are the formal theoretical problems of portfolio choice for commercial banks?' - is answered along certain lines. The answer is allegedly theoretical but the framework is clearly North American. If appended to this question were some such nonsensical phrase as - 'underdeveloped countries' - then it becomes a problem of applied economics. True enough. If by this is meant the application of North American techniques to the problems of the Caribbean!

Of course the logical solution is that in the social sciences there can be no fundamentally meaningful separation of theory and applied and hence objective and empirical analysis. The theoretical framework is either explicitly or implicitly normative and at the same time institutionally conditioned. In monetary economics the regeneration of the subject in the Caribbean depends upon the recognition of this and the subsequent development of research along these lines.

- (b) The second area concentrates on the problems of theory and practice posed by the transition from currency board to

central bank. Enumerated these are -

- (i) the 'cost' of operating an exchange standard system.
- (ii) the relationship of (i) to the problem of measuring 'adequate reserves' and the dynamic considerations posed by the present holding of 'excess reserves'.
- (iii) the implications of high capital mobility, negligible exchange risks, drastic differences in accessible capital markets for certain portfolio choices e.g. those of the commercial banks.
- (iv) the determinants of changes in interest rates.
- (v) the credit creation process in 'dependent' economies.
- (vi) the relationship of the balance of payments to the short-period monetary behaviour.
- (vii) the 'efficiency' of money and credit systems and the growth process.

In most of these topics there is an active research interest on my part and this facilitates the teaching.

- (c) The third area is a knowledge of the functioning of existing institutions. This not only looks at existing problems but at new ways of organising existing information on these issues. This latter consideration merges with the issue of new financial accounting frameworks which may facilitate an understanding of the institutions and an elaboration of more efficient public policy measures. Here

active research in the Monetary Studies Programme will be of great usefulness.

- (d) Finally, there is the forward looking area of reform and development. Any such forward view merges itself into the wider areas of economics and all the social sciences, as part of the general issue of the developmental processes of West Indian societies. Here the limitations of the subject as a unit are most drastically exposed.

7. Successful teaching along these lines, which is hardly ever achieved, could help in the development of flexible and sceptical minds. This would at the very least save us from having the subject degenerate into a professional banker's course with all its concomitant defects as a University course. It could help the new generation of West Indian central bankers to recognise the limitations of their special subject and to overcome the inflated prestige (and thereby recognize the relative obsolescence) attached to their field of operations (as presently practised) in the development of the area.

N.B.

Attached is a copy of the course outline used this year.

MONETARY ECONOMICS - COURSE OUTLINE - 1969/70

NOTES

1. The first 12-15 lectures will deal with the theory and practice of money in Dependent Economies.
2. The remaining lectures will give an advanced treatment of certain topics in monetary theory.
3. The tutorials will be roughly organized on the basis of alternative topics on the theory and problems of the West Indian Monetary Economy and classical, Keynesian and neo-classical monetary theory.
4. Students are expected to attend the second term's lectures and tutorials in International Monetary Economics.

5. Lecture Topics¹

Topic 1. The evolution of financial claims in an exchange economy.

Topic 2. Institutional characteristics of the monetary system of Underdeveloped Economies.

Topic 3. Theory and Organisation of West Indian Currency Systems.

Topic 4. The Theory and Practice of Commercial Banking in the Caribbean.

(a) Institutional characteristics.

(b) Assets Portfolio selection with emphasis on the liquid assets portfolio.

(c) Commercial bank lending and interest rate policy in the Caribbean.

(d) The liabilities structure of commercial banks - deposit creation.

(e) Banking Structure - the multi-national corporation, competition, etc.

1. Lecture topics vary widely in the amount of time allocated to them. Thus Topic 4 usually takes about 6 weeks, Topic 12, one week and Topic 10 about four weeks.

Topic 5. Non-bank financial intermediaries in the Caribbean.

Topic 6. Monetary Policy.

- (a) The Theory and Practice of Open Market Operations.
- (b) The 'Bills only' doctrine and term structure of interest rates.
- (c) The Theory and Practice of Minimum Reserve Policy.
- (d) The Theory and Practice of discount rate policy.
- (e) Variation in Public Accounts and Selective controls.
- (f) Advance Deposits on Imports.

Topic 7. A model of short period monetary behaviour in dependent economies.

Topic 8. Money and growth in dependent economies.

Topic 9. Monetary Dependence and The Problems of Reform and Development of the Financial System of the Caribbean.

Topic 10. A Critical Overview of the Development of Monetary Theory.

Topic 11. The Theory of Inflation.

Topic 12. The Theory of Financial Accounting with special reference to the Flow-of-Funds system.

6. Seminars will be based on the following topics². (They are not listed in order of presentation)

- (1) Critical Analysis of Says' Law and the Classical Quantity Theory of Money.
- (2) The role of savings, investment and the rate of interest in the Classical Theory of Money.
- (3) The Modern Theory of the Demand for Money.
- (4) The historical role and usefulness of the colonial exchange standard system.

2. As usual this list will be flexible and will be changed to reflect areas of dispute, interest etc. during the academic year.

- (5) The Commercial Banks and the Supply Scheme of money.
- (6) Commercial Banks Portfolio Policies in Developing Economies.
- (7) The role of money in Growth Theory.
- (8) The Hicksian Marriage of the two Monetary Triads and the problems of sustaining the Keynesian 'three money-demand motives'.
- (9) The role of the balance of payments in money supply determination in dependent economies.
- (10) *The supply scheme of money - An analysis of Orr, Mellor and Brunner.*
- (11) Liquidity.
- (12) The role of financial intermediaries in monetary analysis.
- (13) The development of money and capital markets in the Caribbean.
- (14) Development Banking.
- (15) The remaining topics will coincide with the International Monetary Economics tutorials.