

Monetary Economics

in Globalised Financial Markets

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Monetary Economics in Globalised Financial Markets

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Authors' note

An old song has it that *money makes the world go round*. Indeed, money, the universally accepted means of exchange, plays a pivotal role in turning the wheels of an increasingly globalized world economy, characterised by increasing cross-border trade in goods and services and international financial transactions. Given the undeniable importance of money for domestic and international economic dispositions, we therefore do not heed the old saying *The best advice about money is not to talk about it* in this book. On the contrary, we will talk about money quite extensively.

At the time of writing, the global monetary architecture experiences an unprecedented credit market turmoil, which started in the US subprime mortgage market in July/August 2007 and spread to virtually all major financial markets. The ultimate consequences of this unprecedented financial earthquake are hard to evaluate in terms of their impact on the global economy and its monetary order in the years to come. Nevertheless, throughout our book the reader will find plenty of analyses of the factors and events which may have sown the seeds of the current crisis.

As indicated already by the title of our book, we venture a quite new project in the sense that we try to combine a practitioner's view with a view from academics. We draw upon a couple of years of experience as members of a group of observers of the European Central Bank (ECB Observer), permanently challenged by intriguing questions by journalists. The objective of the ECB Observer is to analyse and comment on the conceptual and operational monetary policy of the European System of Central Banks (ESCB). The ECB Observer analyses focus on the potential consequences of past and current monetary policy actions for the future real and monetary environment in the euro area. We try to let our experience slip into this book.

With this book we do not enter uncharted territory. Our objective is much more humble: We want to provide students with an integrated overview about the major building blocks of monetary economics – that are monetary theory, capital market theory and monetary policy theory. In doing so, we will draw heavily on the work of many brilliant leading scholars with the aim of strengthening and improving interest in and understanding of monetary policy. On top of that, we will provide numerous graphs and econometric examples, which may help illustrating, and thereby improving the understanding of, the theoretical issues under review.

The book is aimed at second- and third-year undergraduate and graduate courses in monetary economics and/or international finance. Our goal is to develop a broad coherent framework for thinking about

all of the fundamental problems in monetary economics. Our aim is to show that one can address nearly all the core issues in monetary economics with a systematic modern approach which does not neglect econometrics but that also pays attention to the nuances of micro foundations. With an eye on the needs of the job markets in globalised financial markets this should also serve best the job prospects of students of monetary economics and international finance.

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Ansgar Belke and Thorsten Polleit

To our parents
Anita and Horst Polleit
Ursula and Winfried Belke

Monetary economics provides a framework for analyzing money in its functions as a medium of exchange, store of value, and unit of account. It considers how money, for example fiat currency, can gain acceptance purely because of its convenience as a public good. Questions (72). Publications (21,638). I am currently working on an empirical analysis in R. To give you some background information: I want to estimate a VAR-model to subsequently develop IRFs from it (using cholesky decomposition). Monetary economics, as defined in McCallum's (1989) textbook, "is concerned with the effects of monetary institutions and policy actions on economic variables [such as] commodity prices, wages, interest rates, and quantities of employment, consumption, and production". The subject covers the origin, functions and value of money, a large part of macroeconomics with an emphasis on monetary policy, central banking and financial institutions and financial markets.