**MONETARY ECONOMICS IN
DEVELOPING COUNTRIES**

Monetary Economics in Developing Countries

Second Edition

Subrata Ghatak

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St. Martin's Press

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Preface to the first edition

This book is intended as an up-to-date undergraduate text for students taking a course on monetary economics in less-developed countries (LDCs). Since monetary economics is a vast subject, I had to be selective in my choice of topics. However, the important issues confronting the LDCs in the use of monetary and theory policy have been discussed carefully and rigorously. Some basic knowledge of micro- and macro- economics, elementary mathematics and statistics has been assumed. A major aim of writing this book is to 'ease the constraint' on the supply of introductory textbooks on monetary economics in the LDCs. In this respect, I hope that this book may be useful. The text highlights some of the major areas of interest in current teaching and research in monetary economics in LDCs. After a brief introduction in which an attempt has been made to familiarise the readers with the special characteristics of the financial market and institutions in the LDCs, the focus of attention has been the theoretical contributions to the literature by the 'Keynesians' and the 'monetarists'. Next, the relevance of such theories to the LDCs has been discussed. Of particular interest to the readers could be the section on the empirical estimation of stability in the demand for money in the LDCs which has kindly been written by colleague Derek Deadman, to whom I remain very thankful. Chapter 3 describes the monetary institutions in the LDCs. However, given the availability of a significant amount of literature on the institutional side, no attempt has been made to discuss their activities in detail. In chapter 4, the important relationship between money and economic growth has been discussed. Special emphasis has been given to the Tobin and McKinnon-Shaw models and the theory of financial repression in the LDCs. These models are then evaluated in the light of recent empirical findings. The scope of inflationary financing and growth in the LDCs has been the subject of thorough investigation in chapter 6. I am grateful to Peter Ayre who has kindly written this chapter with me. The Polak model and its empirical relevance to the LDCs has been the subject of careful analysis in chapter 6. Chapter 7 examines the role of monetary policy in the LDCs. The chapter on international liquidity and Special Drawing Rights has been written jointly by Peter Ayre and myself. I remain thankful to my colleague, Tony Jennings, who has kindly written the last chapter on the international monetary systems and the LDCs. He has indicated the need for international monetary reform in the 1980s, from the point of view of the LDCs, through the setting up of a new international economic order.

The issues raised in the book are mainly discussed within a framework of analytical economics. I am fully aware of the omissions that have taken place.

However, I hope that the book will provide a concise and fairly comprehensive account of a number of key issues in monetary economics in the LDCs.

The book has been written during 1978 and 1979 while I have been teaching development economics at Leicester University. During the period of my writing, I have received constructive criticisms from many people. I am chiefly indebted to Peter Ayre, who has been kind enough to comment on various drafts of a number of chapters. I am also grateful to Michael Howard, Derek Deadman and Paul Herrington for their comments on different chapters. I also remain very thankful to Jeanne Cretney, Dorothy Logsdon, Joan Cook, Mavis Johnson, Heather Hopper and Janet Marks, for their skill and patience in typing the successive drafts of the manuscript.

University of Leicester

SUBRATA GHATAK

Preface to the second edition

The major objective in the second edition has been to achieve a reasonable balance between the recent monetary growth theories and policies and the realities of economic development in less developed countries (LDCs). Many chapters have been completely revised. Since readers may be particularly interested in understanding the basic concepts of the 'financial repression' and economic liberalisation, I have added a short section on the theories and applications of such concepts and their practical evaluations in LDCs. Chapters on 'Money, Inflation and Economic Growth' and 'International Liquidity', originally with Peter Ayre, have been extensively revised in the light of changes that occurred in the 1980s. New chapters on exchange rate policies and the debt crisis in LDCs have been added. The chapter on rural financial institutions and their role in macro-economic stabilisation is also new. Sections on structural adjustments and financial liberalisation in the 1980s in many LDCs have been revised. A number of case studies have been discussed to analyse the relationship between money and prices in developing countries. To facilitate easy reading, I have relegated some technical and mathematical sections as appendices to the different chapters. Many new tables have been used to provide recent information of the recent events in the LDCs.

In the preparation of this edition, I am grateful to many colleagues and students. I am particularly grateful to Dr Anita Ghatak, Professor Paul Levine, Dr Kate Phylaktis, Ziggy MacDonald, Churni Ghatak, Nursen Albayrak and Steve Wheatley-Price for their help. I am also indebted to Stephen Rutt of Macmillan for his patience and excellent cooperation.

University of Leicester

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