Al-al Bayt University  
Faculty of Finance and Business Administration  
Department of Finance and Banking  

CENTRAL BANKS AND MONETARY POLICIES (503412)  

Dr. Ghaith N. Al-Eitan  

Syllabus  
This is a self-contained, introductory unit in monetary economics. Topics of unit 503412 covered include money demand; the determination of interest rates; inflation; monetary policy; central banking; debts and deficits; international monetary economics; and the economics of financial crises.  

Learning outcomes  
After successfully completing this unit, student will be able to:  
1. Assess the determinants, and the impacts on the economy, of changes in monetary policy and interest rates.  
2. Discuss intelligently the role of the world economy on monetary conditions within a country.  
3. Exposed to debate on current account deficits and foreign debt, as well as financial crises.  

Learning activities  
The lecture is designed to facilities your engagement and active learning in the unit by helping you to make links between new material and your pervious knowledge and experiences. Lectures provide the framework for you to discover and make sense of this new information and important concepts, which are inherent to this unit. The framework may relate to text material, team work discussion and/or practical applications of theory. The lecture will often be based around the set test, but will not merely repeat the material. Rather it will clarify, expand and explain the content. Lectures are an opportunity to stimulate your motivation to learn in the unit and will give you an opportunity to develop your understanding.  

The main topics of the unit are:  

First week: Central banks nature origins and evolution  
- Central banks nature  
- Central banks origins and evolution  

Second week: Roles of Central Banks  
- Issuing currency  
- Work as government bank  

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• Banking supervision and monetary (Basel Committee)
• Last resort liquidity (working for banks)

Third week: Functions of Central Banks
• Public debt management
• Management of foreign reserves
• Foreign exchange management system

Forth week: Analysis of the general budget of the Central Bank
• Analysis of the liabilities side
• Analysis of the asset side
• The relationship between the functions of the central bank and the general budget

Fifth week: The role of the central bank in determining the gold base
• Monetary base
• The role of the central bank in determining the gold
• Actors and factors affecting the monetary base

Sixth week: The role of the central bank in determining the money supply
• Determine the money supply, its structure and its determinants
• The general budget of the banking system
• Factors affecting the money supply

Seventh week: Monetary Policy
• Nature
• Its related to monetary theory
• Types

Eighth week: Quality of monetary policy (direct)
• Nature
• Quality Control
• Quantity control
• Evaluation

Ninth week: General quantitative monetary policy (indirect)
• Open market operations
• Legal cash reserve
• Rediscount rate
• Evaluation

Tenth week: The effectiveness of monetary policy
• Definition and conditions
• The effectiveness of monetary policy in developing countries
• The effectiveness of monetary policy in developed countries

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Eleventh week: The role of central banks in Islamic banking

- Characteristics of Islamic banking
- Central Bank supervisory relationship and Islamic banks
- Financing relationship

Twelfth week: The independence of the Islamic banks

- Relationship with the central banks of Governments
- The independence of the Central Bank indicators
- The monetary effects of fiscal policy

Thirteenth week: Basel Committee

- Basel concept and its importance
- Basel effect on the performance of banks
- The evolution of the Basel requirements and future aspirations

Fourteenth week: Models of central banks in the Arab and Islamic countries

Fifteenth week: Models of central banks in the developed countries

Essential library resources:

2. European Central Banks (ECB), The Monetary Policy of ECB, Frankfurt, 2004

Assessment for this unit will be based on the following components

- First session examination out of 20%
- Second session examination out of 20%
- Positive participation out of 10%
- Final examination out of 50%