

In this course, we adopt the overlapping-generations model as the dynamic model to model the macro economy, and use a consistent approach based on microeconomic foundations and the rationality of economic agents to address several issues in monetary policy, exchange-rate policy and fiscal policy. Among other issues, the issues in monetary policy studied here include the welfare effects of an increasing stock of fiat money, the development of financial intermediaries in the presence of differences in the rates of return between illiquid capital and money, and the reasons for the observed correlation between the nominal money stock and real output. The issues in exchange-rate policy studied here include the implications of different international monetary systems, the determination of exchange rates in the presence of currency controls and the indeterminacy of exchange rates when people are free to hold currencies of their choice.