First Principles of Monetary Theory

Reviewed By
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First Principles of Monetary Theory, by Professor Kishore Kulkarni, is a paperback introductory text on monetary theory, with the various theoretical concepts being presented in a historical perspective. Thus, the reader is exposed to the process of the development of economic thought, as well as the theory itself.

The book consists of fifteen chapters. Chapter 1 defines money, and discusses the evolution and functions of money. Chapter 2 examines the functioning of the gold standard and discusses the reasons leading to its failure. Chapter 3 covers the determination of interest rates and the term structure of interest rates, discussing the Classical Theory of Interest, and the Loanable Funds, Liquidity Preference, Expectations, and Hedging Theory of Market Segmentation theories. Theories are defined, but not elaborated on. After discussing the Old Quantity Theory of Money in Chapter 4, the Keynesian model is introduced, with Chapter 5 covering commodity market equilibrium, and Chapter 6 presenting money market equilibrium. The IS-LM model is introduced in Chapter 7 and used to analyze the effectiveness of monetary and fiscal policy. Monetarism and its implications are discussed and contrasted to Keynesian views in the next chapter, while Chapter 9 is devoted to the causes, effects and policies effective against inflation. The business cycle is the subject of Chapter 10 and contains an interesting section on the development of the theory. Chapter 11 presents the Phillips Curve, again within the context of the development of the theory. In Chapter 12, the aggregate demand and aggregate supply curves are derived and used to analyze the effectiveness of policies in the Classical and Keynesian framework. Adaptive and Rational Expectations Theory are discussed in Chapter 13, while Chapter 14 provides a brief introduction to open economy analysis. The book concludes with a discussion of the international monetary system and its future.

Chapters are relatively short and followed by a Suggested Reading List. Students would find the brevity of the chapters and the direct, concise presentation of the material appealing. The text, which requires substantial editing, is double-spaced for ease of reading and writing of comments. Professor Kulkarni leads the reader through the various theories, equations and graphs on a step-by-step basis that would be very easy to

follow if the text were properly edited. Relevant terms are adequately defined, and each graph is clearly drawn and presented on its own page, leaving plenty of room for student note-taking and comments.

The examples presented in each of the chapters and the framework in which the material is discussed are not specific to the United States or any other country. Because the material is not country-specific, the book could appeal to educators in other countries.

The book is available from Kendall-Hunt Publishing Company, ISBN 0-8403-7554-9, 291 pages.