



## MONETARY THEORY AND POLICY

*Irena Hlavatá, Second edition*

*Publishing House: Financie a bankovníctvo, Bratislava, 2002, 282 pages.*

*The Slovak professional literature on monetary control has been enriched by the second edition of the publication **Monetary Theory and Policy**, which comprehensively covers the issue of monetary control of the national economy and the state monetary policy.*

The second edition of the publication *Monetary Theory and Policy* by Prof. Ing. Irena Hlavatá, PhD. was born, in the author's own words, as a response to the tendencies towards economic globalization and gradual integration of the Slovak economy into the world economy, particularly in connection with European economic and monetary integration. These trends have brought about new views and issues with respect to external monetary relations and links, which the author tried to raise and discuss.

The publication deals with basic theoretical issues of the monetary control of the economy, tools for applying it to the state monetary policy and interrelationships between monetary, fiscal, foreign economic and income policies. Special attention is paid to the question of transition economies and the monetary policy pursued by the European Monetary Union. The author has split the work into nine thematic units, which are connected to each other. By reading them the reader will obtain a well-knit overview of this challenging and important part of managing the national economy.

The first chapter is devoted to money, currency, as well as monetary theories. It outlines the gradual formation and development of money, gives the reasons for the need to employ money in respective stages of development of the economy, and explains the main roles and functions of money in the economy. The chapter is supplemented with a description of the principal roles of the state in performing the monetary functions, together with an explication of the main monetary and interest theories.

From the perspective of economic equilibrium in the national economy, global monetary equilibrium can be characterized as a situation where the supply of goods and services can satisfy to the full extent the effective demand, assuming a stable level of prices. The intricate issue of monetary equilibrium is discussed in the second chapter. The author's main focus is on substantive aspects of the conditions for equilibrium, the impacts of individual monetary and non-monetary factors, the impacts of different types of expenditure and the effect of interest rate levels.

The issue of monetary equilibrium disturbances is presented in the third chapter. The main parts of this chapter include the determination of aggregate price level and inflation as a measure of equilibrium disturbance, the impacts of inflation, the relationship between inflation and

unemployment rate as viewed by different streams of economic thought and the historical development of theoretical views on the issue. However, an important space is also devoted to the modern theory of inflation, different methods of anti-inflationary policy and inflation targeting, which especially over the recent period has presented an effective framework for the monetary policies of central banks in several economically developed countries.

Monetary policy as such is analyzed in the fourth chapter, detailing its position with regard to national economic policy, monetary targets and their mutual links, and describing direct and indirect tools of monetary policy. This theoretical exposition is supplemented by analysis of the goals and objectives of monetary policies of central banks in some of the transition countries. A separate portion of this chapter is devoted to monetary program and a strategy for monetary policy of central banks. It also presents the development and current criteria for the development of the monetary program of the National Bank of Slovakia.

Over the last decade, the theory of rational expectations and its relevance for monetary policy has been coming to prominence in the economy. This issue is described in detail in the fifth chapter. The author not only analyses the respective thoughts and development of this theory, but also its practical importance for accomplishing the goals of monetary and economic policy.

The regulation of money supply and stock is considered to be the most important area of operation for issuing banks in implementing their monetary policies as part of overall national economic policies. The sixth chapter focuses on money supply aggregates, mechanisms of their formation and movement, influencing factors, the functions played by an issuing bank in the mechanism of money supply and the impact of monetary base on money supply. This section also mentions money supply in the Slovak Republic and other transition economies.

External equilibrium is first of all reflected in stable foreign exchange rates and an even balance of payment. These indicators form the main topic of the seventh chapter.

Highly relevant questions of coordination between monetary and fiscal policies are covered in the eighth chapter, which is mostly devoted to debt policy as a tool for mana-



ging the economy. This is especially typical of the economy of transition countries. In a separate section, the internal and external debts of the Slovak Republic and state debt management are analyzed.

In the final chapter, ninth in order, the already mentioned issue of monetary policy within the European Monetary Union is discussed. A certain portion of this chapter is dedicated to analysis of the transformation and integration of countries of Eastern and Central Europe into the European Union.

The publication *Monetary Theory and Policy* has a con-

siderably wide scope, but still presents an integrated view of the complex issue of monetary control. The author offers a comprehensive and useful source of information, which can not only be highly recommended to the community of specialists, but also to all students of economy. It is notably the comprehensiveness of coverage of such a broad subject matter and the inclusion of highly topical questions of external monetary relations that constitute undisputable contributions for all readers interested in the problem area in question.

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