

IGC, London October 22, 2011

Workshop on Monetary Policy in Developing Countries

Questions

Much work has been done on positive and normative monetary policy in developed countries, but very little work so far has been done for poor countries, which are perhaps, the ones that need more guidance (and for which, likely, the potential benefits of better designs of monetary policy are bigger). There are many questions still open and we need a bridge to be able to apply the insights from the monetary-policy literature to developed countries.

- (i) What is the (unconditional) optimal monetary policy for poor countries?
- (ii) What is the second-best policy, given political economy, fiscal or other types of constraints?
- (iii) How do economists' recommendation vis-à-vis the use of fiscal instruments to dampen business cycle fluctuations change in the context of poor and very poor countries?
- (iv) Are there commitment mechanisms that poor-countries can put in place to lower their temptation to inflate/default on nominal commitments?
- (v) If forming international currency unions is an answer to (iii), how should they be organized within the feasible domain?
- (vi) How do the answers to these questions change for countries rich in oil and other natural resources?

Workshop Structure

We propose a workshop to discuss these and other related issues, and identify gaps in knowledge/promising research questions. In particular, the workshop will be conceptually organized in three parts.

Part 1. Overview of current monetary practices in developing countries. What do developing countries actually do?

Part 2. Overview of existing academic theoretical and empirical work on these questions. Comparison with current practice as per Part 1. How close is current practice to what research suggests should be done (in a second-best world)?

Part 3. Discussion of questions arising from Part 1 and Part 2. If current practice deviates from (theoretically) optimal is it just a matter of changing practice or is theory missing some crucial friction? What are the unanswered questions? What are the puzzles good research should explain?

Participants

We think of three sets of participants, each to be the most active during the three parts, or phases, of the workshop. The first group would be experts of monetary policy as it happens on the ground. Among these we would pick maybe one or two to give an overview of current practices (Part 1). These participants could be identified from international organizations (IMF or World Bank) or from government officials in some partner countries. Also IGC country experts could fulfil this role.

The second group would be formed by academics who have actively contributed to high-quality theoretical or empirical research on the questions of the workshop. From this group we would seek to recruit two or three to give an overview of existing research (Part 2).

The third group is made up of academics who have not necessarily written much on these topics, but which we would like to get excited about doing so. In some sense these are the target audience for the workshop. We would hope these would be the ones to respond in Part 3 to the material presented in Parts 1 and 2 and to help through their questions to define the research agenda going forward and, hopefully, to be among those to pursue this agenda. The ultimate goal of the workshop is to widen the set of people who want to work on fiscal policy in developing countries.