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This book offers an intermediate-level introduction to formal monetary policy analysis. It is aimed at undergraduate students of economics who have completed basic courses in macro and microeconomics, calculus, and statistics, and wish to deepen their understanding of the theoretical and operational foundations of monetary policy. The book begins by exploring the institutional framework and objectives of monetary policy in Colombia, followed by an analysis of money supply through the interbank market and open market operations. The following chapters review the evolution of money demand from different schools of economic thought and introduce formal models, such as the money-in-the-utility-function (MIU) model, the Lucas model with imperfect information, the Taylor model with price rigidities, and, finally, a simplified version of the New Keynesian model. The book also addresses the problem of dynamic inconsistency in the formulation of monetary policy and includes an appendix on solving models with rational expectations. Designed to fill the gap between introductory

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macroeconomics and advanced graduate-level texts, the book offers an accessible yet rigorous treatment of key concepts in monetary theory and policy.

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## **Foreword written by Mauricio Villamizar-Villegas and Lucía Arango-Lozano**

Monetary policy is a fascinating subject that is always at the center of economic discussions, whether in classrooms, media headlines, or everyday conversations. However, understanding it in depth requires more than a superficial view: it demands building a bridge to navigate these different levels of complexity in order to understand how central bank decisions impact our economies and our daily lives...

## **Introduction**

This book is dedicated to the study of the most common, and perhaps the most important function of central banks: the design and implementation of monetary policy. By monetary policy we refer to interventions in the money market aimed at affecting either the quantity of money or its price (the interest rate), with the purpose of achieving a macroeconomic objective, usually related to inflation levels and real economic activity...