Monetary Stability (Concepts and Implications)

Muzna Ayal Fattan and Dr. Ali Jaber

Abstract--- *In order for criticism to perform its functions, it must enjoy stability over time, whether in terms of its value or where it exists. The stability of criticism translates with confidence in the minds of people and its adoption in their decisions that related in the future. Also, monetary stability is one of the important indicators that the International Monetary Fund has adopted to demonstrate the stability of the state's economic situation and believes that the stability of cash is an inevitable means for the conduct of economic activity through the main ways and methods that would set the economic entity a program to address problems that threaten stability which is summed up in several imbalances such as excessive inflation, volatility and instability in interest rates, exchange rates, and the balance of payments. And monetary stability is the stability of prices (interest rates, product prices and exchange rates) over time, within the framework of market freedom in the sense that there is a consistent proportion between the output The national and the monetary mass, so every increase or decrease in the monetary mass that is not matched by a similar increase or decrease in the national product leads to a disturbance of this stability.*

Keywords--- *Depression, Unemployment, Inflation.*

I. INTRODUCTION

The world has witnessed several economic shocks, the cause of which was the emergence of new successive problems represented in depression, unemployment, inflation, etc., which led to the emergence of several economic ideas calling for the need to move towards achieving monetary stability, as achieving economic stability is directly related to achieving monetary stability, and for this it was necessary to Providing a stable environment for economic activity, this means that there is an appropriate monetary situation in a serious banking framework for the conduct of this activity, and thus a stable monetary environment through special factors aimed at achieving monetary stability.

Research Importance

Monetary stability is one of the important indicators adopted by the International Monetary Fund to indicate the extent of the state of the state of the economy, as well as an inevitable means for the conduct of economic activity, and thus achieving overall economic stability in the country.

Research Problem

Achieving monetary stability is achieved through the pursuit of monetary policy to adapt the money supply to the level of economic activity and avoid crises, as monetary stability represents a high cost to the economy.

The following questions are also raised :

1: What is monetary stability and what are the procedures to achieve it?

2: How central is the central bank to achieve monetary stability?

Muzna Ayal Fattan, College of Administration and Economics / Al-Muthanna University, Iraq. E-mail: meeznaayal1@gmail.com
Dr. Ali Jaber, Asst. Prof., College of Administration and Economics / Al-Muthanna University, Iraq. E-mail: HussainIy37855@gmail.com

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Research Hypothesis

The research is based on the hypothesis that the measurement of monetary stability is carried out by measuring the basic criteria represented by indicators of internal and external monetary stability.

Research Objective

The research aims to study the nature of the work of monetary policy in its pursuit of the goal of monetary stability and identify the most important internal and external indicators.

II. THE CONCEPT OF MONETARY STABILITY

It can be said that monetary stability is to provide a stable monetary environment for economic activity by activating a real and strict monetary policy and defining the general framework for the work and powers of the central bank (Janine, 1981: 21)

On the other hand, it is to achieve harmony in the rate of growth of the money supply and the requirements of consumer spending in the budget and control the size of its spending (Saeed Omran, 2008: 106)

It can be said that monetary stability is the condition in which indicators of monetary stability remain at minimal levels of fluctuations that do not result in severe shocks (TyAmos PesentiChair, 2016: 3)

From the above, we can notice that the goal of monetary stability is achieved through the pursuit of monetary policy to adapt the money supply to the level of economic activity and avoid the occurrence of economic crises .Since monetary stability is a cost to the economy and sometimes a high cost, it can lead to a general depression, because instability of the value of cash is not just a matter of some individuals without others, because cash is a tool that is used by all individuals without exception, so cash is not the same as other commodities, so if the value of a commodity is disturbed What - other than cash - it does not lead to imbalance in the economy as a whole, while if the value of cash is disturbed, this affects the economy as a whole and is the reality of the matter in contemporary economies, where the scope of use expanded in a way that was not known before.

III. PROCEDURES TO ACHIEVE MONETARY STABILITY

In order to achieve monetary stability, monetary policy must be managed around two things, the first relating to investment and the other relating to savings

The first one aims to increase the ratio of investment to GDP, as well as direct these investments to sectors that serve economic growth more than others .

As for the second, it seeks to try to raise the saving rate as a percentage of the gross domestic product and collect and mobilize the savings that can be saved in the economy .

In general, it is possible to include the measures taken by the state for the purpose of achieving monetary stability: - (Bushra, 2013: 32)

1. Control the money supply in order to match the size of the real output, in order to maintain price stability and avoid inflation.

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2. Reducing the balance of payments deficit by controlling banking, and directing it towards supporting the export sector at the expense of the import sector.
3. Maintaining the currency exchange rate, convertibility and strengthening the country's foreign currency reserves.
4. Strengthening banking supervision, as increasing the banking supervision exercised by the central bank on the bank and in line with international standards in this regard, as well as developing an early warning system for banks that helps the central bank in identifying weaknesses of any bank in the early stages, in addition to the commitment to apply accounting standards Internationally based financial disclosure.

Indicators of Monetary Stability

The process of measuring monetary stability is often carried out by three basic criteria which are the purchasing power represented in the price level, the opportunity cost in relation to the amounts available in the future represented by the interest rate, and third and finally the relative value in relation to other currencies represented in the exchange rate.

Internal Monetary Stability

The most important indicators of internal monetary stability (inflation and interest rate), as well as the most important economic problems that have received a great deal of attention on the part of experts and governments because of their significant effects on macroeconomic variables and therefore the basic aspects of both inflation and interest rate will be addressed **:**

A. Inflation

The Concept of Inflation

It is the fluctuation in the value of money or the general level of prices from high or low as a result of some imbalances, thus creating a new balance at the macro level, and on, but when looking at the issue from the macro point of view, inflation is not limited to the increase in the general price level, it is a balance relationship followed by an imbalance In the balance between the macro variables in the national economy, that economist, François Beau, expressed this by defining inflation as a mismatch between the movement of partial monetary currents in prices that cannot be absorbed during a natural period. to become a prevailing situation inhabiting a strategic sector in the economy, its effects will soon extend to all other economic sectors in the national economy (Kazim, 2016: 153) . Inflation becomes more widespread when the increase in the money supply is accompanied by an increase in government expenditures that are funded with protected loans instead of taxes and it is not an isolated or unexpected phenomenon (Hotyar,: 2005, 192)

Inflation is a continuous rise in the price level accompanied by a decrease in the true value of money (David & Stanely, 1997: 64).

Friedman argues that inflation is a long-term monetary phenomenon and is a case of steadily rising prices (Frederic.S.Mishkin, 2004: 263)

As for the well-known economist (P. Samuelson), the rate of inflation is the percentage of change in the general level of prices, which means that inflation occurs when the general level of prices rises, and is calculated using the indices (weighted averages) of the prices of thousands of individual products, that is, the consumer price index measures The market cost of the consumer basket of goods and services compared to the cost of that package of goods and services in a given year (Dagger, 2010: 8)

The previous concepts and criteria for their development are insufficient and limited to give an inclusive definition of the phenomenon, and therefore the economist Emile James explained this criteria. Inflation was defined as a movement of price escalation characterized by self-continuity resulting from excess demand in excess of supply capacity. This definition distinguishes the following characteristics:

- Inflation is a movement, that is, an automated process that can be stopped over a long period of time
- This movement is characterized by self-continuity, in the sense that inflation is not an occasional or temporary phenomenon,
- This definition exposed many of the descriptions of inflation in brief terms that combine the reasons established for it and the features that characterize this concept. (Al-Bayati, Al-Shammari, 2009: 278)

IV. Types Of Inflation

Demand Pull Inflation

Demand Pull Inflation

This type of inflation arises as a result of an increase in the amount of government and private spending on goods and services in a way that exceeds the amount of it, which pushes sellers to raise the prices of goods and services and if spending continues to increase without being matched by an increase in production for reasons that may be related to a weak production base and the inability to expand it, and if The scarcity also included the work component, so workers demanded to increase their wages due to demand pressure, and this situation persists as long as the tunnels remained in excess of the available resources (Ajami, Ramzi, 2009: 286)

Cost – Push Inflation

This type of inflation occurs as a result of an increase in costs, and that when the factors of production increase their share of the total product by raising their prices, accordingly the increase in prices is the result of the increase in the costs of the factors of production, and this is called cost-push inflation.Accordingly, the analysis of paying costs only assumes that there is a monopolistic authority in the labor market or the commodity market. When there are trade unions, prices may rise as a result of higher wages and when there is a monopolistic authority in the commodity market, the monopolist often aspires to raise the price in order to increase profits, According to the theory of paying costs, the increase in demand in one of the economic sectors is considered the primary driver of inflation because it leads to higher prices and wages in this and other sectors (Sami Khalil, 1982: 593)

Inflation Due to Deficit Financing

This type of inflation arises as a result of the emergence of a deficit in the government budget as a result of insufficient resources available to cover the tunnels and thus resort to bridging the gap by creating new money or increasing credit, so this type is called (inflationary financing)

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There are two ways to finance the government budget deficit and pay the tunnels: they either raise revenues or loans by creating government bonds (issuing bonds) or the government creates new money and uses it in spending on goods and services, but the government faces two facts: if you finance the government deficit by increasing the issuance of bonds For the public, there is no effect on cash flow or money supply, but if the government's debt is not funded in this way, the cash flow and money supply will increase, especially if you finance the deficit by creating money with high strength. (Al-Shammari, 1988: 264)

V. THEORIES AND SCHOOLS EXPLAINING INFLATION

The existence of many theories explaining the phenomenon of inflation does not mean a contradiction and opposition to these theories, on the contrary, they overlap and are intertwined in many aspects with a view to reaching a clear definition of inflation and given the importance of this phenomenon, exposure to the various schools and theories that dealt with the interpretation of the phenomenon of inflation.

1. Interpretation of Conventional Thinking of Inflation

This theory was adopted during the sixteenth century when the rise in the price level led to a search for an explanation of its causes by thinkers, and through the study carried out by Malestroit in 1566 he reached the conclusion that the lower the amount of the metal in the monetary unit, the higher the prices, and Bodan argued They did not explain the high prices due to the abundance of precious metals. (Abdul Muttalib, 2013: 141)

From here the studies of classical schools were launched, as this theory sees that there is a close correlation between each increase in the amount of cash and the increase in the general level of prices, meaning that whenever the quantities of cash are thrown into circulation, an inflationary demonstration is reflected mainly in the high prices.

That is, the traditional quantitative theory tried to explain the phenomenon of inflation by determining how the change in the general level of prices depends, as the latter depends on the amount of cash assuming the consistency of both the speed of money circulation and the volume of transactions, and then came Richard Contillor, who emphasized previous studies and entered the phenomenon of compactness And its negative impact on the speed of circulation of money and bank loan and its positive impact on it (Ahmed Hussein, 2005: 198)

The effect of the amount of money can be seen through the following chart:

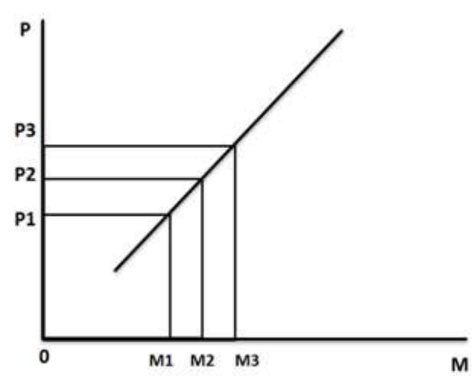

Figure 1: It Shows The Relationship Between the Amount of Money Offered and the General Price Level

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2. Modern Swedish School

The ideas of this school were taken in the thirties and forties of the last century by a group of economists such as Lundberg, Bent Hansen and Lindahl. This school is one of the modern trends and enriched it with what it added to the critical analysis. The supporters of this school say that there is no reason to assume the equivalent of planned investment with realized savings except in the case of balance, because investment decisions are made by a group of individuals whose motivations and inclinations differ from the group of individuals who save, and therefore, the lack of Equality between planned savings and planned investment leads to fluctuations in the price level and, accordingly, inflation according to the ideas of this school occurs as a result of the difference in investment plans from savings plans (Ramzi Zaki, 1980: 71)

3. The Keynesian School

Many economic thinkers have abandoned the quantitative theory of money due to its inability to explain economic phenomena, including inflation, so its interpretation of inflation as a monetary phenomenon is a short explanation, so Keynesian School emerged and economist Keynes is one of the economists who advocated this theory and built their definition of inflation through the imbalance between demand and supply as a reason Creator of inflationary phenomena (Saleh, 2006: 20)

As this theory asserted that the amount of money does not affect prices, because what affects prices is not the amount of money but rather what is used from it in spending, because it is possible that the increase in the amount of money is accompanied by an increase in it similar to the tendency of individuals to hoard, and does not lead to an increase in the volume of demand, Therefore, the explanation of inflation according to this theory is due to a surplus in demand for goods and services that exceeds the current capacity for production capacity, and this surplus in demand is not only a surplus of demand in consumer goods markets, but also a surplus in demand in the factors of production. Both markets we get what Keynesians call b Inflationary gap (Al-Hallaq, Al-Ajlouni, 2010:204)

B. Interest Rate

The Concept of Interest Rate

The interest rate is one of the most important indicators that are used to achieve the effect on economic activity and on a more general level that is used to analyze the macroeconomic movement, because it not only affects consumers ’desires to invest or save, but also affects the decisions of investors from business owners (Al-Ghazali, 1988: 173)

The concept of interest rate and its role in economics has evolved according to changing economic systems and global conditions. Economists introduce many concepts of interest rate. Smith and Ricardo have defined it as the compensation that the borrower pays for the profit that he could achieve by investing his money. As for Alfred Marshall, the interest is paid for waiting, that is, paid Before those who want to borrow in exchange for postponing the use of a portion of their income for a certain period in the future (Al-Atouf, 2014: 126), Tossing says that the interest rate is determined at the level that makes marginal capital productivity bring the marginal benefit from saving.

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From the foregoing it becomes clear that the interest rate is a price paid as the price of any commodity, and it is viewed from the borrower's point of view as a cost he incurs in return for obtaining purchasing power and the lender views it as a return as a result of his temporary dispensation of this purchasing power.

Schools and Interest Rate Theories

After referring to the concept of interest rate, it is necessary to clarify the important strategic role that the interest rate plays in the context of some economic schools. In general, the interest rate is a very complex phenomenon, as the interest rate represents one of the most complex problems in economic theory, as this theory went through several stages Time

Classic Theory of Interest Rate

Known as(Time preference theory) Also known as (Saving - Investment theory of interest rate)

Before delving into the classic viewpoint, we must mention an important point, which pertains to one of the basic assumptions on which the classic analysis relates to the role that money plays in determining the general level of prices on the basis of the basic function of money, which is that it is a means of exchange only and therefore the role of money is neutral. In achieving balance, so the interest rate according to classical theory has become a means of striking a balance and equality between saving and investment (Yahya, 2001: 64).

Thus, the interest rate, according to the classical theory, expresses the price that strikes a balance between the demand for resources for investment and which is governed by the level of marginal productivity of capital in the true sense, and the willingness to refrain from present consumption or marginal disutility of waiting (Al-Khadimi Abdel Hamid, 2011: 86)

The capital supply curve “savings” descends to the top of the right, to express the direct relationship between the level of the interest rate and the size of savings, and to translate the increase in possible savings when the interest rate rises and falls with it. They built their assumption on the basis of temporal preference, that is, individuals prefer a certain amount of money at the present time over an equal amount in the future. . The demand for capital (investment) demand curve slopes down to the right, in an inverse relationship between the level of interest and the size of investment demand, and the market interest rate is determined by the intersection of these two aspects and Figure 2 shows that:-

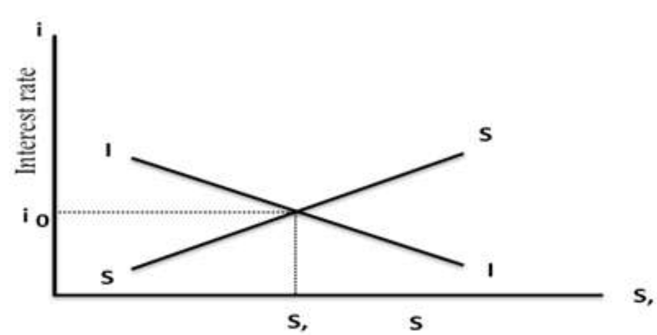

Figure 2: Shows Savings And investment and the Interest Rate According to the Classic Vision of Savings and the Amount of Spending and Investment

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From this figure, the curve l represents the demand for money for investment purposes. The S curve shows the money supply for saving purposes and the balance is achieved at the point of their intersection and in which the equilibrium interest rate is determined.

Keynes Theory

Also known as the liquidity preference theory, it shows the nature of demand for liquid assets and their relationship to the interest rate, and Keynes interprets interest as a pure monetary phenomenon, and thus gave money an important role in the economic system by the fact that money is a means of storing purchasing value and I have to consider Interest is a pure monetary phenomenon, meaning that the interest rate is determined by the demand and supply of money. The liquidity demand that Keynes called Liquidity preference, along with the money supply (the total amount of money), determines the interest rate.

Interest is a reward paid for the assignment of liquidity - it is a reward for not hoarding and not just a means of exchange which was what the classics had previously seen (Samer Mansour, 2014: 15), as monetary factors and real factors are combined for the purpose of arriving at how to determine the interest rate.) Through his explanation of the modern theory by clarifying four determinants of the interest rate, which is the investment request table, the savings function, the liquidity preference table, and the amount of money.

1. External Monetary Stability

The Concept of Exchange Rate

The goal of achieving monetary stability is one of the most important objectives of the monetary authorities, and the relationship of this goal to the exchange rate is a very complex relationship, as the process of choosing the appropriate system is dictated by the circumstances of each country, and the exchange rate is a key price in an economy that ultimately affects the cost of imported goods and services and the profitability of an industry Export, which affects its impact on inflation, output and employment, so the exchange rate determines the scope of independent monetary policy Inside.

The exchange rate can be viewed from two angles. From the first corner, the exchange rate is defined as: "The number of units of domestic exchange that are exchanged in one unit of foreign exchange, and from the second angle the exchange rate is seen as the number of units in foreign currency that are paid for On one unit of local currency ((William J. Baumol, 1998: 20)

And the exchange rate represents the mirror on which the commercial position of the state is reflected with the outside world, through the relationship between exports and imports, as exchange rates are a tool to link the local economy to the global economy.

Therefore, the exchange rate is a link between the open economy and the other economies of the world through knowledge of international costs and prices. Therefore, the exchange rate achieves the internal balance represented by price stability and achieving economic growth and the external balance represented by achieving a balance in the balance of payments, as well as the importance of the role of the exchange rate in linking The local economy, the global economy, through the three markets, which are the asset market, the commodity market, the factor of

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production, and at the macro and micro levels. As the exchange rate links the prices of local commodities and their prices in the global market, and the real exchange market determines the number of units of foreign goods required to purchase one unit of local goods. The exchange rate also seeks to achieve the overall goals that are internal and external balance, and since the main objective of the exchange rate is limited to achieving stability To exchange the country's currency against foreign currencies, which is the desired goal, but it may be difficult to achieve because the exchange rate is subject to many determinants, just as any commodity in a fully competitive market is determined through the interaction of the forces of supply and demand (Naama, 2011: 16).

Therefore, we can say that obtaining monetary stability is achieved through maintaining the purchasing power of money, and that cash performs its basic functions over time, which will lead to a decrease in the cost and stability of financing costs, which will benefit the economic activity by stimulating and encouraging investment and attracting local and foreign capital .

Perhaps the third criterion has become the most important indicators today, because of the high exchange rate fluctuations and fluctuations that we see, which is negatively due to the attempt to achieve monetary stability because of its direct correlation at the price level.

Exchange Rate Systems

1-The Fixed Exchange Rate System: This system is called the golden system of exchange rates, as governments have relied on specifying a fixed value for monetary units in relation to a specific gold weight with the possibility of transferring between them without restrictions, as well as the freedom to import and export gold to and from countries that followed the gold rule and thus the countries have maintained a fixed exchange rate for their currencies Against each other, and some changes in the exchange rate can occur under this system because of the balance of payments situation. When a balance of payments deficit occurs, the value of the currency will decrease, but by a rate less than its equivalent, but if the opposite occurs and there is a surplus in the balance of payments, the value of the currency will increase by Larger Of an equivalent ratio, but these changes that occur are not of a high degree, the possibility of importing and exporting gold freely and this would reduce deviation to certain limits (Abbas, 2016: 3).

2-Flexible Exchange Rate System: This system differs from its predecessor in that the central bank allows the exchange rate to be adjusted so that supply equals demand with foreign currency without foreign exchange markets interfering, in this system we find that the base of exchange rates depends on the mechanism of leaving the exchange rate determined automatically based on the forces of supply and demand Without the monetary authorities interfering, therefore, the price system represented by the forces of supply and demand is the one that determines the exchange rate for each currency against other currencies, and that the demand for foreign exchange and supply works according to the general rule, which is that the demand works in the opposite direction with the price and supply works in a direct way with the price And so it is possible Extend the exchange rate at the point where the required quantities are equal to the quantities offered in the case of prices, and monetary authorities under this system do not interfere to address the imbalance in the balance of payments because the price apparatus is working to make appropriate changes in the exchange rates that in turn affect the value of Exports and imports, even though

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the reality proves the intervention of the financial and monetary authorities in order to avoid the occurrence of harmful effects (Hammam Al-Shamaa, Omar Hisham, 2002: 142).

3-Managed Exchange Rate System: In this type of system, the system relies on fixing the exchange rate and obligating the monetary authorities to interfere in the exchange markets for the purpose of maintaining price stability through the use of their international cash balances to confront the imbalance in the balance of payments and this system was agreed upon after the Second World War in Medina (Bretton Woods) in the state of New Hampshire in 1994 and it was agreed to stabilize the exchange rates and according to the agreed rate of the exchange rate of its currency and not to change it in certain limits, and for exchange rates to take some flexibility, they were allowed to change up or down within (1%). Exchange a Impact of two decades the percentage of relative stability and consistency came due to official cash reserves. This is what made the Bretton Woods system a stable but adjustable exchange rate system and this system is fixed in the short term and adjustable in the long term (Aladdin, Hakim: 17 2016).

4-The Managed Floating Exchange Rate System: This system relies on the interaction of the forces of supply and demand for the local currency in the foreign exchange market and free. That is, making some changes in the supply and demand for currencies in order to achieve a balance in the balance of payments without any interference by the monetary and financial authorities to define it, and the countries that follow this system are benefiting from the flexibility of exchange rates, when the value of the local currency decreases, this will be reflected on the level of prices in goods and services that It will be of low value in relation to the foreign importer, and then its imports of these goods and services will increase. This leads to an improvement in the situation in the trade balance. Thus, the state does not need local policies that were expansionist or contractionary policy to maintain the balance since these policies are free from The restrictions imposed on the balance of payments (Falih Hassan: 2004: 73(

VI. THE ORIES EXPLAINING THE EXCHANGE RATE

1-The Purchasing Power Parity Theory: This theory belongs to the Swedish economist (Gustav Kassel) in 1994, as this theory stipulated that the exchange rate of any currency is determined according to the purchasing power inside the country and compared to its purchasing power outside the country, meaning that the relationship between the currency of a particular country and another country is determined on the basis of prevailing price levels Between the two countries

It is clear from that that the deviation in the purchasing power from the exchange rate is due to the difference in the time of the commercial cycle between the two countries, as the increase in local prices compared to international prices in light of a specific exchange rate leads to an increase in the exchange rate automatically and this in turn leads to an increase in imports and an increase in demand for foreign exchange and a decrease in exports Foreign exchange, since this theory suggested that there are no structural changes in the national economy, and it assumes that the state does not interfere in foreign trade, so this theory faced many criticisms, including the difficulty of estimating record numbers for years to come over a year, and the theory neglected factors except Other with direct impact on the exchange rate, such as income, interest rate, and speculation. She neglected the difference in price elasticity of demand in exports, and was not interested in changing consumer tastes and the orientation towards

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alternative goods, as well as her lack of interest in tariffs, however this theory, despite the criticisms directed at it, remains an important theory in determining the exchange rate (Saharawi Saeed, 2010: 61).

2-Balance of Payments Theory: It is the changes in the balance of payments that determine the external value of the currency (the exchange rate), as the exchange rate is determined as other prices are determined according to the rule of supply and demand. On the import side, this means an increase in the demand for the local currency against foreign currencies, i.e. an increase in its exchange rate and an increase in its external value. Exchange rate, but if there was a balance in the balance of payments, it means equal in the currency supply and demand, leading to the stability of the external value of (Abdul Majeed Kadi, 2005)

3-Monetary Theory in Determining the Exchange Rate: This theory determines the exchange rate through the flow of balances in the foreign exchange market. This theory also focused on the fact that the exchange rate is a monetary phenomenon because it is influenced by the real determinants of money demand as the money supply is determined by the monetary authorities, while the demand for money is determined by a level Real income, the general level of prices and the interest rate, as the interest rate plays an important role in determining the exchange rate, because the high rate of interest in a particular country compared to other countries leads to an increase in the exchange rate, and vice versa in the case of a low interest rate. However, the interest rate does not work to exclude the money supply, as they can work in two opposite directions. If there is an expectation of a decrease in the money supply, the exchange rate will not be affected because the interest rate will decrease because the money supply is expected to decrease and thus the main reason for which there can be no A rise in the exchange rate (Imad Ali, 2008:27)

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