International

scientific and practical conference

DECEMBER 6
2024

2024



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The main directions of socio-economic development of New Uzbekistan: problems and solutions

MINISTRY OF HIGHER EDUCATION, SCIENCE AND INNOVATION OF THE REPUBLIC OF UZBEKISTAN

JIZZAKH BRANCH OF THE NATIONAL UNIVERSITY OF UZBEKISTAN NAMED AFTER MIRZO ULUGBEK

Scientific journal of Science technology & Digital finance

The main directions of socio-economic development of New Uzbekistan: problems and solutions collection of materials of the international scientific and practical conference on the topic

(December 6, 2024)

(Part 1)

Jizzakh-2024

Department of Economics and tourism of Jizzakh branch of the National University of Uzbekistan named after Mirzo Ulugbek
6.12.2024

The main directions of socio-economic development of New Uzbekistan: problems and solutions collection of materials of the international scientific and practical conference on the topic – Jizzahk: Department of economics and tourism of Jizzakh branch of the national university of Uzbekistan named after Mirzo Ulugbek, December 6, 2024, 450 pp.

Editors in charge: DSc.prof. Turakulov O.X., PhD. O'ralov A.I.

In the collection of materials of the conference, the role and role of Science, Education and production in the era of globalization, the pressing problems of the issues of interaction of these processes, feedback on their solutions were presented by mature specialists of the field.

In addition, research on the scientific and practical topic, carried out in the economics, Exact Sciences, Natural Sciences and socio-humanities during the globalization period, information is presented in the scientific and practical fields, which includes the latest innovative technologies in the fields of production.

It can be argued that this collection is one of the specific intersections of current thoughts and innovative ideas of the world of science. This scientific and practical conference was actively attended by professors and scientific researchers engaged in scientific research in Uzbekistan and foreign countries. In increasing the position of the scientific and practical conference, the professors and teachers of domestic and foreign higher educational institutions made a significant contribution.

Professors and teachers of foreign higher educational institutions who actively participated in the work of the conference made a worthy contribution to the high level of interaction with scientists of our country. The processes of international cooperation with foreign countries and exchange with them in the field of Science in the era of globalization have a positive effect on the development of Higher Education, the fields of Science and production. The materials of this conference are special in that they include a wide range of research, from theoretical developments to practical solutions, demonstrating the diversity of approaches and directions in this area.

In conclusion, it should be noted that this scientific and practical conference will be a very useful collection for everyone who is interested in modern research in the fields of further development of Higher Education, Science, Education and production in the era of globalization. The authors are responsible for the content and quality of the articles and abstracts included in the collection.

THE IMPORTANCE OF MONETARIST THEORY AND POLICY IN ECONOMIC REGULATION



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Abstract: Monetarism, as a school of thought in economics, emphasizes the central role of money supply in influencing economic activity, inflation, and overall economic performance. It was popularized by economist Milton Friedman in the mid-20th century and provided a counterpoint to Keynesian economics, which advocated for active fiscal intervention. Monetarist theory stresses the importance of controlling the money supply as the primary method for regulating inflation, stabilizing the economy, and achieving sustainable growth. This paper explores the key principles of monetarist theory, its policy implications, and the relevance of monetarism in modern economic regulation.

Keywords: monetarism, money supply, inflation control, monetary policy, velocity of money, quantity theory of money, monetary rule, Milton Friedman, Central Bank Independence, inflation targeting

Introduction

Monetarism emerged as a dominant economic paradigm in the 1970s as a response to the perceived failures of Keynesian economic policies, particularly in dealing with inflation and stagflation. The theory, championed by Milton Friedman, asserts that the quantity of money in an economy is the primary driver of inflation and overall economic performance. According to monetarists, controlling the growth of money supply is the most effective way to stabilize the economy, control inflation, and ensure sustainable economic growth.

Monetarist policies advocate for a fixed growth rate in the money supply, often in contrast to Keynesian recommendations for fiscal stimulus and government intervention in times of economic downturn. This paper examines the principles of monetarism, its policy recommendations, and its role in contemporary economic regulation.

The core principles of monetarism

Monetarism is built around several key principles, which emphasize the importance of the money supply and its regulation. These principles challenge the Keynesian view that government intervention through fiscal policy can effectively manage inflation and unemployment.

1. **Money supply controls inflation**

Monetarists argue that inflation is always and everywhere a monetary phenomenon. This means that changes in the money supply directly affect the price level in the economy. If the money supply grows faster than the real output of the economy, inflation will occur. Conversely, if the money supply grows too slowly, it can lead to deflation and economic stagnation.

2. **Velocity of money**

Monetarists emphasize the concept of the velocity of money, which refers to the number of times money circulates in the economy in a given period. While Keynesian economists focus on aggregate demand as the primary driver of economic activity, monetarists argue that the velocity of money is influenced by expectations and economic conditions. A stable money supply, coupled with predictable changes in velocity, can lead to stable price levels and economic growth.

3. **The quantity theory of money**

A central tenet of monetarism is the Quantity Theory of Money (QTM), expressed through the equation of exchange:

MV=PQMV = PQMV=PQ

Where:

- M = Money supply
- V = Velocity of money
- P = Price level
- Q = Output of goods and services (real GDP)

According to the QTM, changes in the money supply (M) lead directly to proportional changes in the price level (P), assuming the velocity (V) and real output (Q) remain constant. Monetarists assert that controlling the money supply is the most effective means of managing inflation and stabilizing the economy.

4. **Natural rate of unemployment**

Monetarists reject the notion of an inverse trade-off between inflation and unemployment, as suggested by the Phillips Curve. According to this view, attempts to reduce unemployment below the natural rate through monetary or fiscal stimulus will only lead to accelerating inflation. Instead, the natural rate of unemployment is determined by structural factors in the labor market, and government intervention cannot permanently reduce it.

5. **Market expectations**

Monetarists argue that individuals and businesses form expectations about future inflation, which influence their economic decisions today. The credibility of monetary policy, especially in terms of controlling inflation, is therefore crucial. If people expect inflation to rise, they will act in ways that can bring about higher inflation (e.g., through wage demands or price hikes), making it harder for policymakers to control inflation.

Monetarist policy recommendations

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6.12.2024

Monetarist theory has clear policy implications, particularly in the realm of monetary policy. These policies are designed to stabilize the economy by managing inflation and ensuring sustainable growth through control of the money supply.

1. **Control of money supply**

The central policy recommendation of monetarism is that governments and central banks should control the money supply to maintain price stability. Monetarists recommend targeting a fixed annual growth rate for the money supply, typically aligned with the expected growth of real GDP. By focusing on money supply rather than interest rates or fiscal policy, central banks can achieve greater control over inflation.

2. **Rule-based monetary policy**

Rather than relying on discretionary monetary policies that respond to economic fluctuations, monetarists advocate for rule-based policies. A common monetarist rule is the **k-percent rule**, which suggests that central banks should increase the money supply by a fixed percentage annually, based on the natural growth rate of the economy. This approach aims to avoid the volatility and uncertainty associated with discretionary monetary policy.

3. **Limited government intervention**

Monetarists generally advocate for limited government intervention in the economy. They argue that fiscal policy (government spending and taxation) is often inefficient and can distort market outcomes. Instead, they propose that monetary policy should be the primary tool for economic regulation. Monetarists believe that markets, if left to operate freely, will naturally adjust to changes in demand and supply.

4. **Inflation targeting**

In practice, many central banks around the world, including the Federal Reserve and the European Central Bank, have adopted inflation targeting as a key component of their monetary policy framework. While inflation targeting can be seen as an implementation of monetarist ideas, it also incorporates elements of flexible inflation targeting that allow for short-term deviations from the target to stabilize economic conditions.

5. **Central Bank Independence**

Monetarists stress the importance of central bank independence from political influence. Since monetary policy needs to focus on long-term price stability, it should not be subject to political pressures that might prioritize short-term economic gains (e.g., financing government deficits) at the cost of long-term inflation control.

The relevance of monetarism today

Monetarism had a significant influence on global economic policy in the late 20th century. Central banks in the United States, the United Kingdom, and other developed nations embraced monetarist principles, particularly during the 1980s, under the leadership of figures like Paul Volcker and Margaret Thatcher. These policymakers focused on controlling inflation by tightening the money supply and implementing interest rate hikes.

Today, while the strict monetarist approach has been somewhat moderated, the core ideas continue to influence monetary policy. Central banks' focus on inflation targeting, maintaining price stability, and controlling the growth of the money supply remains central to economic regulation. Moreover, the global financial crisis of 2008 demonstrated the limitations of purely monetarist policies, particularly in times of financial instability when central banks have to intervene more aggressively in financial markets.

Monetarism also faces challenges in the modern economy, particularly in an era of low interest rates and quantitative easing (QE). Some critics argue that central banks’ reliance on unconventional monetary policies has blurred the line between fiscal and monetary policy, raising concerns about the long-term impacts of excessive money creation and debt accumulation.

Conclusion

Monetarism has played a central role in the evolution of economic thought and policy, particularly in the regulation of inflation and the management of economic stability. The monetarist focus on controlling the money supply and avoiding discretionary fiscal policies has had a lasting impact on central banking practices and global economic regulation. While the application of monetarist ideas has evolved, particularly in response to financial crises and market disruptions, its core principles remain relevant in contemporary economic policy. Central banks continue to rely on monetary policy tools to control inflation, stabilize economic growth, and maintain financial stability.

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