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THE REFLECTIONS OF NEW ECONOMY ON MONETARY POLICY AND CENTRAL BANKING

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Abstract

Developments in the information and communication technologies have been causing significant changes on the working mechanisms of the economy both at the national and international areas. Some of the developments can be indicated as follows: the dramatic increasing of capital movements amongst nations; the speeding of global economic integration; the effects of world's financial markets; the creation of new payment mechanisms; the decreasing of transaction and knowledge costs; getting the information in a permanent and fast way; the fluctuations in financial markets; increasing potential growth and productivity rates. It is possible to summarize the mentioned developments with the concept of "new economy". In this paper, the reflections of new economy on monetary policy and central banking are examined. According to the results of this study, the views about monetary policy and central banks will no longer exist in the future is not realistic. As far as we are concerned, central banks will continue to guarantee the stability of financial system all over the world as was the case in the past.

JEL Classification Numbers: E41, E44, E5, O3

Keywords: New economy, monetary policy, electronic money, central banking

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1. Introduction

The globalization and developments in the information and communication technologies in the last quarter of the 20th century have given birth to important changes in the commercial, educational, health, economic, social, political and cultural lives of the societies. Likewise, some researches suggest that the developments in the information and communication technologies boost productivity, offer new employment scope, increase potential growth ratio without raising inflation, affect living standards positively, change traditional commerce and payment types, promote democracy, facilitate state-citizen relations, increase health service quality and convert goods, labor and money markets into more competitive forms. In spite of these positive developments, there are some negativity like digital division and instability.

Various concepts such as “e-economy”, “new economy”, “e-commerce”, “e-financing”, “e-money”, “e-banking”, “e-education”, “e-health”, “e-government”, “e-democracy” and “e-citizenship” are seen to have used to describe the developments to which the information and communication sectors lead. The multitude and diversity of the concepts can be taken as a sign how much the innovation in the information and communication technologies affects many aspects of everyday life.

In this paper, the macroeconomic reflections of the new economy on monetary policy and central banking are examined. In fact, it is hard to say that the works carried out in the economics literature have a long history. However, it should also be indicated that a consensus at which direction the new economy will affect monetary policy and central banking as well the other subjects of economics has not been created. The economists in this case can be divided into two main groups: The first one is the group of economists who support the idea that the new economy does not constitute any changes relating to monetary policy and central banking. The second one

is those who argue that the new economy can cause vital changes on monetary policy and central banking.

This study has been organized as follows: we have examined the conceptual issues concerning new economy in the second section, the advent of the new economy and its basic features in the third section, and the macroeconomic reflections of new economy on monetary policy and central banking in the fourth and fifth sections.

2. The Definition of New Economy and Conceptual Issues

In the literature, it is apparent that there is no consensus on how to express the impacts of the developments in the information and communication technologies on economy and the extent of their impacts. And this is accompanied with some problems. The first problem is connected with the *concepts* used to express the impacts of information and communication technologies on economy. However, when the literature is scrutinized, the multitude of the frequently referred words such as “digital economy”, “digital era”, “digital sector”, “information economy”, “e-commercial”, “e-economy”, “e-conomy”, “electronic commerce”, “knowledge-based economy”, “knowledge economy”, “weightless economy”, “virtual economy”, “internet economy”, “new global economy”, “network economy”, “frictionless commerce”, “innovation economy”, “connected economy”, “next economy”, “new new economy”, “renewed economy”, and “new old economy” summarize what is meant by the problem.

The second problem is related to the *definition* of the concepts to have been used for analyzing the changes emerged in economy. This problem results from the various perspectives that have been formed on the issue of the *dimension* or *depth* of the change. It is meant by the dimension of the impact what are the elements that have caused the changes in economy, whether the impacts of the technological changes on economy are observed in a certain sector or in all sectors, whether or not they are observed in certain countries or throughout the world and

whether structural changes have been experienced in economy. Definitions are given in narrow or broad sense according to the dimension of the specified impacts.

These two problems are also encountered in the context of the concept “new economy”, which is the subject of this study. Likewise, even though a quite large literature of new economy exists, it is pretty hard to respond correctly to the query what the *new economy is* at this stage. Consequently, it is rather a difficult task to try to define new economy.

The usage of the concepts and definitions covering lots of different meanings, paves the way to misinterpretation and misguidance. Thus, when selecting and defining concepts, it must be cautious about the fact that they hold different and similar contents. In the reduction of these specified problems, it will be helpful to express clearly the contents of the concepts and definitions to be used in the studies. For example, Cohen, Delong and Zysman (2000) stated that they preferred to apply a new term named “E-conomy”. In their opinion, the term “network economy” is of very narrow meaning; on the other hand, “new economy” very broad. Kling and Lamb (2000) suggest that using the term “digital economy” to include the goods and services whose development, production, sale, or provision is critically dependent upon digital technologies, and the term “information economy” to include all informational goods and services like publishing, entertainment, research, insurance services, and teaching in all of its forms.

The proposals below should be taken into consideration in analyzing the impacts of the changes in the information and communication technologies on economy:

- If the internet is considered to be a stimulating power of new economy, such concepts as “digital economy”, “network economy”, “e-economy” or “internet economy”, can be applied in the same sense. These definitions are in narrow sense.

- If new economy is not considered to be restricted with the digital or internet economy, in this case the new economy can be defined in a sense that will cover digital economy, globalization, innovation and sustainable development (<http://www.crie.ro/nouaeconomie/se1-presentation-VD.html>). The definitions given in this scope are considered to be broad meaning.

In many studies, it is seen that new economy concept covers the basic features of internet economy and information economy. In this context, the term “new economy” describes an economy where both final output and intermediate goods predominantly consist of information and where the digital information and communication technologies provide world-wide access to almost any available information (Piazolo, 2001, p.3).

In the light of conceptual discussions which are tried to be summarized above, it is beneficial to mention some definitions related to new economy.

While Stiroh (2002) defines new economy as productivity gains, unemployment declines, and inflation moderation in the late 1990s that resulted from technology, globalization, and increased competitive pressures, Bullard and Schaling (2000) label the new economy as a condition in which productivity and growth increase are experienced on the one hand and inflation follows a stagnant line on the other. It is accepted that the basic factor lying under the growth without enhancing inflation is the higher performance provided in productivity.

According to Nordhaus (2000), the new economy involves acquisition, processing and transformation, and distribution of information. The three major components are the hardware (computers) that processes the information, the communications systems that acquire and distribute the information, and the software which with human help manage the entire process.

Nakamura (2000) expresses the new economy as high-tech innovation and he thinks that the globalization of world markets have changed our economy enough that we need to think about it and operate within it differently.

To Atkinson and Court (1998), the term new economy, refers to a set of qualitative and quantitative changes that, in the last 15 years, have transformed the structure, functioning, and rules³ of the economy.

Gordon (2000) defines the new economy as mid-1990s acceleration in the rate of price decline in computer hardware, software, and telephone services, the corollary of an acceleration of the exponential growth rate of computer power and telecommunication capability, and the wildfire speed of development of the internet.

Some of the definitions limited with a few examples related to the new economy have been made in a narrow sense and the others in a broad sense. While Atkinson and Court (1998), Stiroh (2002) and Nakamura (2000) prefer to make a broad definition, Nordhaus (2000) and Gordon (2000) are interested in narrow one.

Two final points to be made here are that there are another division concerning the definitions of new economy as “moderate and extreme views” and that there are views in the literature against the new economy concept. For example, Meyer (2001) argues that *new economy depends on how you define it and where you live*. It is beyond the scope of this paper to discuss these views.

3. Advent and Basic Features of New Economy

The developments in the information and communication technologies, globalization and rising global competition have been the fundamental factors in the advent of new economy. The economy and technology coexist and co-evolve to produce so-called *new economy*. Thus new economy can be formulized briefly as that *technology + economy = new economy* (Figure 1).

³ According to Kelly (1999) there are ten new rules for the new economy: 1) Embrace the swarm, 2) Increasing returns, 3) Plentitude, not scarcity, 4) Follow the free, 5) Feed the web first, 6) Let go at the top, 7) From places to spaces, 8) No harmony, all flux, 9) Relationship technology, 10) Opportunities before efficiencies (Kelly, 1999, p.161-162).

Similarly there is a close correspondence between new economy and globalization. The motto “*new economy is globalization’s daughter*” by Furia (2000) sums up this correspondence very briefly and clearly.

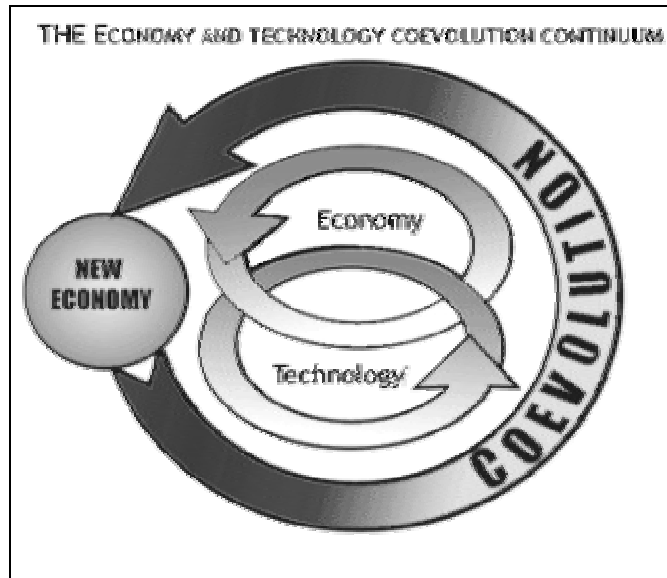


Figure 1: Creation of New Economy through Co-evolution.

Source: Tanjuakio, 2002, p.3

The close correspondence between technological developments, globalization and competition that are the dynamics of new economy can be worded variously. For instance, by reducing the cost of communication⁴, information and communication technologies have helped to globalize product and capital markets. In turn, globalization spurs competition and therefore innovation, and speeds up the diffusion of new technologies through trade and investment (Berk, 2002, p.4). As a consequence of this close correspondence, the unseen successes have been achieved in the macroeconomic performance of economy. Likewise, in the 1995-2000 period of the USA economic performance far exceeded even optimistic forecasts with 4.1 % in real GDP

⁴ E.g. whereas the cost of a three-minute telephone call between New York and London was \$ 244.65 in 1930, this cost fell to \$3.32 in 1990 (IMF, World Economic Outlook, May, 1997, p.46).

growth, 3.2 % in real GDP per capita growth, 4.6 % in average unemployment and 1.7 % in average core inflation (Baily, 2001, p.203).

Table 1: Keys Features of Old Economy and New Economy

ISSUE	OLD ECONOMY	NEW ECONOMY
Markets		
Economic Development	Steady and linear, quite predictable	Volatile and chaotic
Market changes	Slow and linear	Fast and unpredictable
Lifecycle of Products and Tech.	Long	Short
Key Economy Drivers	Large industrial firms	Innovative entrepreneurial knowledge-based firms
Scope of Competition	Local	Global hyper competition
Market Structures	Stable	Dynamic
Competition: Name of the Game	Size: The big eats the small	Speed: The fast eats the slow
Marketing: Name of the Game	Mass marketing	Differentiation
Enterprise		
Organization of Production	Mass production	Flexible and lean production
Key Drivers of Growth	Capital / Labor	Innovation / Knowledge
Importance of Research/Innovation	Low – Moderate	High
Key Technology Drivers	Automation and mechanization	Digitization
Main Sources of Competitive Advantage	Lowering cost through economies of scale	Innovation, Quality, Time-to-Market, and Cost
Pace of business	Slow	Appreciably faster with ever-rising customer expectations
Emphasis on	Stability	Change management
Business Development Approach	Strategy pyramid: vision, mission, goals, action plans	Opportunity-driven, dynamic strategy
Success Measure	Profit	Market capitalization
Scarce Resource	Financial capital	Human capital
Decision Making	Vertical	Distributed
Innovation Processes	Periodic, linear	Continuous, systemic
Production Focus	Internal processes	Entire value chain
Strategic Alliances with Other Firms	Rare, "go alone" mindset	Teaming up to add complementary resources
Organizational Structures	Hierarchical, Bureaucratic	Networked
Work Force		
Leadership	Vertical	Shared: employee empowerment & self-leadership
Policy Goal	Full Employment	Higher real wages and incomes
Work force characteristics	Mainly male, high proportion of semi-skilled or unskilled	No gender bias; high proportion of graduates
Skills	Mono-skilled, standardized	Multi-skilled, flexible
Education Requirements	A skill or a degree	Continuous learning
Management-Employee Relations	Confrontation	Cooperation, Teamwork
Employment	Stable	Affected by market opportunity, and risk
Employees Seen as	Expense	Investment
Government		
Business – Government Relations	Impose Requirements	Encourage growth opportunities
Regulation	Command and Control	Market tools, Flexibility

Source: Atkinson and Court, 1998, p.7, and Kotelnikov, Vadim, http://www.e-coach.narod.ru/business_guide/crosscuttings/new_economy_transition.html

Table 1 has been arranged to display the key features of new economy. As can be seen from the table, new economy, on the contrary to old economy, is open to rivalry, man-centered, information-based, flexible, swift, changeable and digitalized.

At this stage, the query “Does it mean that new economy changes the basic rules of economy?” is beyond the scope of our paper.

4. Reflections of the New Economy on the Monetary Policy and Central Banking

The use of information and communication technologies in monetary sector commonly has emerged new payment instruments such as e-cash, network money and access products. Generally, becoming widespread of electronic payment instruments called electronic money (e-money)⁵ has brought into the agenda the discussions among the economists related to whether there will be a “cashless world” or “cashless society”. These discussions have revealed a wide literature studying the effects of electronic money on central banking and monetary policy.

Spread of new payment instruments which have become an indispensable unit of the new economy is of fairly important impacts on the future of central banks and monetary policy. The direction and the level of these impacts will depend on three factors: the changes in demand for central bank’s reserves, money multiplier and the functioning of monetary transmission mechanism, which are discussed below.

Electronic Payment Technology and the Demand for Central Bank Reserves (Liabilities)

Along with the spread of electronic money, some arguments regarding the considerable decrease of central bank reserves have been put forward. Those arguments maintain that if the central bank reserves decrease, power of central bank to influence economic activities will increasingly weaken. Thus, the efficiency of monetary policy will diminish in parallel fashion.

⁵ *Electronic money* is broadly defined as an electronic store of monetary value on a technical device that may be widely used for making payments to undertakings other than the issuer without necessarily involving bank accounts in the transaction, but acting as a prepaid bearer instrument (European Central Bank, 1998, p.7).

There are five basic sources for the demand for the central bank reserves (Figure 2): 1) Reserve requirements on banks, 2) non bank public's demand for liquidity, 3) bank's demand for settlement⁶balances, 4) payment of tax obligations, 5) international interbank settlements (Palley, 2002, p.219; Arnone and Bandiera, 2004, p.13).

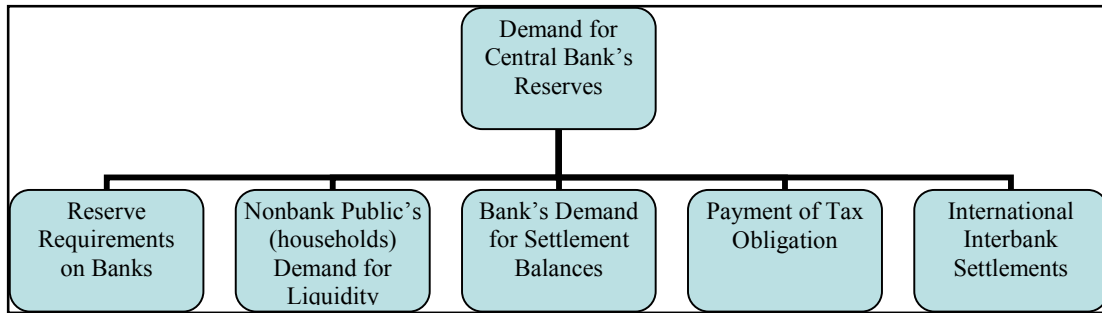


Figure 2: Demand for Central Bank's Reserves

Reserve requirements and households' demand for liquidity have constituted the most important sources of the demand for central bank's reserves⁷ (Palley, 2002, p.220; Woodford, 2001, p.23). Therefore, the replacement of e-money for the government money will lead to a remarkable decrease in the central bank reserves. Both the influencing power of the overnight interest rates and the seigniorage revenue may be influenced negatively in parallel fashion. Seigniorage revenue here refers to the interest savings the government earns by issuing non-interest-bearing debt in the form of currency (Ely, 1996 p.3).

Banknotes in circulation represent the liabilities of central bank which do not provide interest profit (non-interest-bearing). As expressed in the previous part, with the spread of electronic money seigniorage revenue of central banks will gradually begin to decrease (Rahn, 2000, p.3). For instance, to Ely (1996), if private sector issues \$10 million electronic money to

⁶ *Settlement* is an act that discharges obligations in respect of funds or securities transfers between two or more parties (European Central Bank, 1998, p.41).

⁷ For example, the percentage of currency in central bank's liabilities in the USA, Canada and Japan is over 84 % (Bank For International Settlements, 1996 p.5).

the market, seigniorage revenue of the government will approximately diminish \$ 600 million annually. The decrease of seigniorage revenues may cause that central banks can not cover their operation costs. As seigniorage revenues are one of the most significant income sources of national treasury at the same time, it can be also stated that there will be a decrease in the income of treasury. So, according to the Bank for International Settlements, among the G-10 countries, seigniorage as a percent of GDP ranged from low of 0.28 percent in United Kingdom and France to a high of 0.65 percent in Italy in 1996 (Bank For International Settlements, 1996, p.7).

The decrease in seigniorage revenues will also increase the possibility that central banks will be dependent on other income sources. This means that central banks may lose their financial independence and they may be exposed to much more political pressure.

Electronic Payment Technology and the Money Multiplier

The power of central banks and the efficiency of monetary policy stem from monopolistic powers on base money (monetary base). Base money consists of the sum of the bank's reserves at the central bank and the currency. Base money is also known as high-powered money. Its reason is that central banks can create changes in money supply as several times as money base thanks to the mechanism of central bank's money multiplier.

Money multiplier mechanism can be formulated as follows (Bank of Japan, 2000, p. 52-53; Selgin, 1996, p.1-2):

Money supply (M) is the sum of currency (C) and the bank deposit balance (D) and shown as following:

$$M=C+D \quad (1)$$

Base money (H) is the sum of the bank's reserves at the central bank (R) and the currency (C) as following.

$$H=R+C \quad (2)$$

Therefore, the money multiplier (M/H) is written as

$$\frac{M}{H} = \frac{C+D}{R+C} = \frac{\frac{C}{D}+1}{\frac{R}{D}+\frac{C}{D}} \quad (3)$$

Note that C/D is public's desired currency-to-deposit ratio (c) and that R/D is the bank's desired reserve-to deposit ratio (r). The formula for the money multiplier becomes

$$m = (1+c) / (r+c) \quad (4)$$

where the total money stock is

$$M = mH \quad (5)$$

When electronic money appears, the money supply and money multiplier will be changed adding the electronic money balance E to equation (1) so that

$$M = C' + D' + E \quad (6)$$

Finally, the formula for the new money multiplier is that

$$\frac{M}{H} = \frac{C' + D' + E}{R' + C'} = \frac{\frac{C'}{D'} + \frac{E}{D'} + 1}{\frac{R'}{D'} + \frac{C'}{D'}} \quad (7)$$

Comparing equations (7) with (3), along with the spread of electronic money it is easily understood that money multiplier will increase because with the use of electronic money instead of government money, both $C/D > C'/D'$ and $R/D > R'/D'$ will appear. In other words, currency-to-deposit ratio (c) and reserve-to deposit ratio (r) will decrease. In view of these explanations, it may be concluded that base money (H), money multiplier (m) and money supply (M) become unstable. In this case, the monetary policy strategy depending on monetary targeting will lose its efficiency. Nowadays it is accepted that this is one of the reasons why central banks give up monetary targeting and prefer inflation targeting strategies.

Electronic Payment Technology and the Monetary Transmission Mechanism

Monetary transmission mechanism being a complicated process describes how policy-induced changes in the nominal money stock or the short-term nominal interest rate impact on real variables such as aggregate output and employment (Ireland, 2005, p.1).

Central banks in transmission mechanism try to influence the households and firms' pricing behaviors through interest rate, exchange rate, asset price, credit, expectations and monetarist channels. But the process described below generally is quite complicated since many factors influence the process of monetary transmission mechanism.

The interest rate channel is a primary interaction channel both in macroeconomics models and monetary policy applications. That is why interest rate channel plays a crucial role in monetary transmission mechanism. Central banks try to attain inflation target through interest rate influencing expectations, asset prices and exchange rate (Figure 3).

Operation of this process effectively depends on the central banks' capability of controlling interest rates. This situation requires positive demand on government money because central banks can influence real economy through interest rates, which stems from its monopolistic power on money supply (Friedman, 1999, p.321; Woodford, 2001, p.50).

In this phase, the question arises whether central banks can control interest rates or not. There are various viewpoints on this subject. In general, it is asserted that the government money demand may decrease as a consequence of the spread of electronic money. Therefore, central banks may not control interest rate.

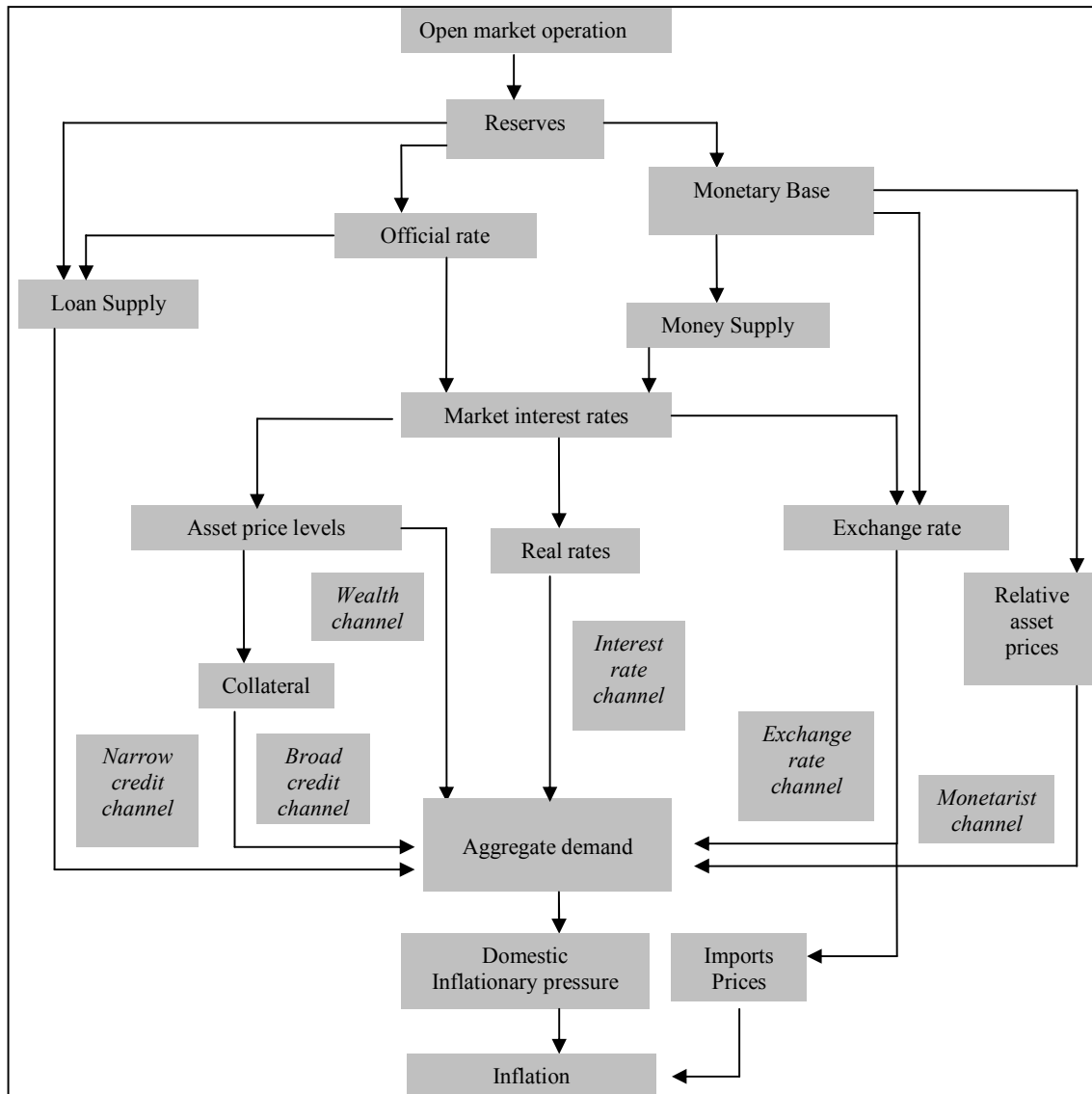


Figure 3: Monetary Transmission Mechanism

Source: Kuttner and Mosser, 2002, p.16

According to Fullenkamp and Nsouli (2004), as a result of the spread of e-banking services, interest sensitivity of money demand will enhance due to the decreasing operation costs. The macroeconomic effects of these changes are shown using a simple IS-LM model and are illustrated in Figure 4. Theoretically, the shifts in LM curve depend upon the interest sensitivity of money demand, and money supply. The spread of e-banking increases the interest sensitivity

of money demand, and money supply⁸, which therefore make the LM curve flatter. As seen in figure 4, LM_1 curve will shift rightward into LM_2 due to the increase of interest sensitivity of money demand, and into LM_3 due to the increase in the sum of money supply through e-banking services. This means that the efficiency power of monetary policy in influencing macroeconomic variables will increasingly weaken.

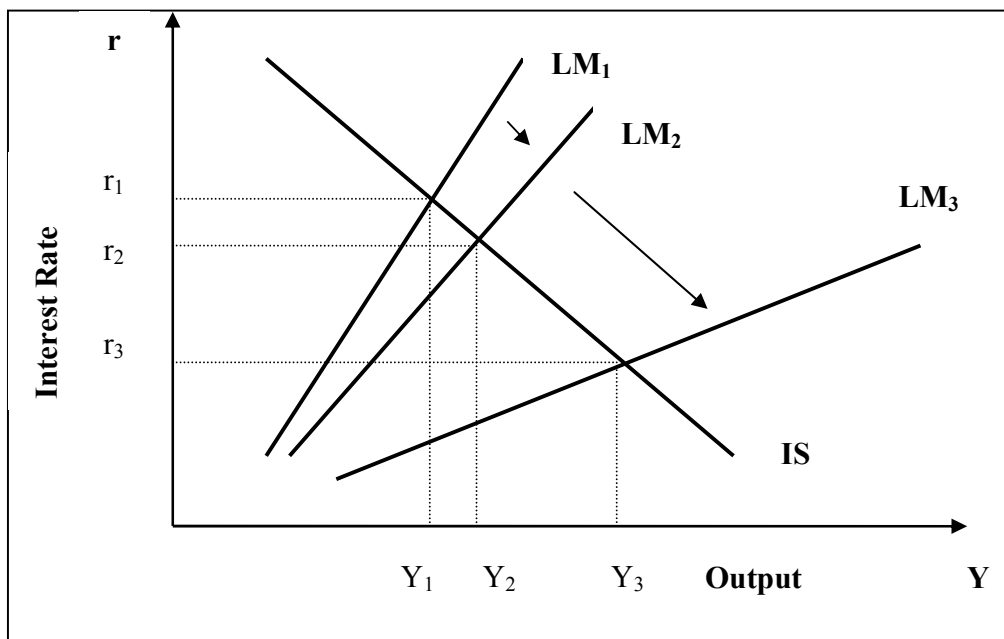


Figure 4: Combined Effect of E-Banking and Private E-Money

Source: Fullenkamp and Nsouli, 2004, p.11

Some economists heavily criticized the conclusion that central banks will have difficulty in controlling interest rates along the spread of electronic money (Cecchetti, 2002, p.19-20; Fullenkamp and Nsouli, 2004, p.23; Arnone and Bandiera, 2004, p.13; Palley, 2002, p.220; Delong, 2000, p.7; Bank of Japan, 2000, p.37; Berk, 2002, p.21; Freedman, 2000, p.21-22).

According to them, the demand for government money may continue *ad infinitum* and central banks are still capable of controlling interest rates because of the settlement operation of central banks, non-full substitution of government money with electronic money, reserve

⁸ Total money in economy will be the sum of government money and private e-money.

requirements for all payment instruments, interest-bearing central bank bills and central banks' position as lender of last resort operations.

5. Debate over Reflections of the New Economy on the Monetary Policy and Central Banking

It is possible to say that there exists a consensus among economists on the fact that the developments in the information and communication technologies will have impact on the monetary policy and central banking. Disagreement among them may stem from the degree of the impacts under consideration.

It is possible to divide into two groups the discussions on this issue.

In the first group the economists are advocating that there will not be radical changes in the monetary policy and central banking. This group does not disregard such probabilities that the activity of the monetary policy may diminish and central banks lose their financial independence. They, on the other hand, voice that these impacts should not be exaggerated. In this group are some economists such as Mesonnier (2001), Johnson (2001), Freedman (2000), Berk (2002), Goodhart (2000), Delong (2000), Cecchetti (2002), Arnone and Bandiera (2004), McCallum (2000), Woodford (2000, 2001), Plosser (2000), Palley (2002), Meyer (2001), Green (2001), and Ely (1996) and their views can be summarized as follows:

- Monetary policy is currently conducted in an environment very different from that of just 10 to 15 years ago. Acquisition of information is getting cheaper, easier and faster thanks to progressing technologies. Consequently, transaction costs are falling. Particularly, the fall in the transaction costs of banking services raises the securitization. These developments in the banking sector naturally affect the monetary transmission mechanism as well. Yet, the basic principles of the monetary policy and the role, objectives and targets of central banks will not change largely.

- As the demand for the government money sustains, the impact of central banks on interest rates does not cease completely. Besides, there is no historical evidence that none of the new means of payment instruments completely removes the government money. On the other hand, the fact that the electronic money holds much risk compared to the government money raises suspicions of whether this money can be used successively or not.

- The possibility that the seigniorage revenues of central banks will fall due to the prevalence of the electronic money is not very realistic. Because central banks can stabilize the fall in the seigniorage revenues through reserve requirements to e-money, central bank bill, interest payments of central banks on reserve balances, government deposits at the central bank, and being the lender of last resort operations.

- Being public institutions, central banks are not of any risk, do not face bankruptcy and can determine higher interest rates to preserve the demand for the government money. What is more, central banks are lender of last resort. Due to these reasons, the demand for the government money will never come to an end. Central banks, therefore, will sustain their functions in the following centuries, too. If someday there were a bad end of central banks, this would be not because of technological causes, but the outcome of their own incapability.

The economists in the second group advocate that, in the new economy, there will be important changes in the monetary policy and central banking. Among them are some economists defending that central banking can go bankrupt and even more vanish. Some of the economists in this group are King (1999), Dowd (1998), Rahn (2000), Friedman (1999, 2000), White (2001), and Cronin and Dowd (2001) and their views are as follows:

- Parallel to the progress in information technologies and financial markets, it is needless to discuss over whether or not central banks will function efficiently because historical evidence shows that central banks have never functioned effectively by far.

- Since the demand for government money will decrease, depending on the technologic breakthroughs in the long run, monetary policy may become ineffective and even disappear completely. Furthermore, when the demand for government money decreases, money supply should also decrease not to cause inflation. For this reason, central banks will have to withdraw their money. In this case, central banks will notably be deprived of seigniorage revenue. Consequently, even the bankruptcy of central banks may come to the agenda.

- In comparison with government money, electronic money has some advantages since it is easy to carry, reliable and hygienic. At the same time, electronic money operation costs will be reduced. So, the demand for electronic money will gradually increase and there is some concrete evidence on this point. Consequently, there may well be fewer central banks in the future.

- There is no reason, in principle, why final settlements could not be carried out by the private sector without the need for clearing through the central bank via the technologic innovations. Without such a role in settlements, central banks in their present form would no longer exist.

- The main issue is that technological innovations will impair the central bank's ability to carry out operations that reliably affect economic activity in the usual sense of real output and inflation.

6. Conclusion

Rapid developments in information and communication technologies have paved the way to significant changes in all sectors of economy as well as other fields. The dimension and content of the changes are briefly expressed via "the new economy" concept. There are differences in the content of this concept among the economists. While some economists assert that the new economy entails new rules (extreme view), the others defend that this change is usual (moderate view).

Taking into consideration that the changes in economy seem to continue depending on the various reasons, we think that it is better to use “*renewed economy*” instead of “new economy” because the economy is *ad infinitum* renewing itself.

The field that the developments in information and communication technologies influence most is monetary economy. Through the spread of e-money and e-banking services, the future of monetary policy and central banking is under question. As a result of the continuing debates, there have existed two different arguments. The first is that there will not be any change in the future of central banking and monetary policy. The second, including extreme views, is that monetary policy and central banking will no longer exist.

Having about over three hundred year-past, central banking has managed to keep up with the changes in economy by renewing itself. Also, they have become the forerunners and regulators of these changes. Thus, that the central banks have pioneered in the studies on electronic payment instruments is the evidence of this change. Moreover, shift from government money to electronic money appears to be a slow process, and this gives central banks adequate time to develop ways to meet the challenge to monetary policy.

Consequently, relying on the reasons investigated through the paper, the views that monetary policy and central banks will no longer exist in the future, is unrealistic. As far as we are concerned, central banks will continue to guarantee the stability of financial system all over the world as was the case in the past.

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