

Theory of Money and Banking (Master)- Fall 2020

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Grading:

- Homework: 20%
- Paper replications: 20%
- Research proposal: 20%
- Referee reports: 20%
- Final: 20% (Covers all topics)

Section 1: What is money and price! (1/3 course)

I. Money in OLG Models (2 sessions)

- *Shell, Karl. "Notes on the Economics of Infinity." *Journal of Political Economy* 79.5 (1971): 1002-1011.
- Balasko, Yves, and Karl Shell. "The overlapping-generations model, I: The case of pure exchange without money." *Journal of Economic Theory* 23.3 (1980): 281-306.
- Balasko, Yves, and Karl Shell. "The overlapping-generations model. II. The case of pure exchange with money." *Journal of Economic Theory* 24.1 (1981): 112-142.
- *Gale, David. "Pure exchange equilibrium of dynamic economic models." *Journal of Economic Theory* 6.1 (1973): 12-36.
- * Sargent, T. and N. Wallace (1981) "Some Unpleasant Monetarist Arithmetic", *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 5, No. 3 pp. 1-17

II. Cash-in-Advanced theory (1 session)

- *Christiano, L. and M. Eichenbaum (1992) "Liquidity Effects and the Monetary Transmission Mechanism", *American Economic Review*, Vol. 82, p. 346-353.
- *Christiano, L., M. Eichenbaum, C. Evans (1998) "Monetary Policy Shocks: What Have We Learned and to What End?" *Handbook of Macroeconomics*.
- Fuerst, T. (1992) "Liquidity, Loanable Funds, and Real Activity", *Journal of Monetary Economics*, Vol. 29, pp. 3-24.
- Ireland, P. (1997) "Sustainable Monetary Policies", *Journal of Economic Dynamics and Control*, Vol. 22, pp. 87-108.
- Lagos, R. and R. Wright (2002) "A Unified Framework for Monetary Theory and Policy Analysis",
- Townsend, R. (1980) "Models of Money with Spatially Separated Agents", in J. Kareken and N. Wallace, eds., *Models of Monetary Economies*, Minneapolis: Federal Reserve Bank of Minneapolis, p. 265-303

III. Search Theory of Money (2 sessions)

- * Trejos, A. and R. Wright (1995) "Search, Bargaining, Money and Prices", *Journal of Political Economy*, Vol. 103, p. 118-139.

- Lagos, R. and R. Wright (2002) "A Unified Framework for Monetary Theory and Policy Analysis"
- Gu, Chao, Fabrizio Mattesini, and Randall Wright. "Money and credit redux." *Econometrica*, (2016)

IV. New-Keynesian Monetary Theory-nominal rigidity (4 sessions)

- * McKay, Alisdair, Emi Nakamura, and Jón Steinsson. "The power of forward guidance revisited." *American Economic Review* 106.10 (2016): 3133-58.
- Taylor, John B. "Aggregate dynamics and staggered contracts." *Journal of political economy* 88.1 (1980): 1-23.
- Calvo, Guillermo A. "Staggered prices in a utility-maximizing framework." *Journal of monetary Economics* 12.3 (1983): 383-398.
- King, Robert G. "The new IS-LM model: language, logic, and limits." *FRB Richmond Economic Quarterly* 86.3 (2000): 45-104.
- * Nakamura, Emi, and Jón Steinsson. "Five facts about prices: A reevaluation of menu cost models." *The Quarterly Journal of Economics* 123.4 (2008): 1415-1464.
- Caplin, Spulber "Menu Costs and the Neutrality of Money" (1987) *QJE*
- Caplin, Leahy "Aggregation and Optimization with state Dependent Pricing" (1997) *Econometrica*
- Golosov, Mikhail, and Robert E. Lucas Jr. "Menu costs and Phillips curves." *Journal of Political Economy* 115.2 (2007): 171-199.
- * Klenow, Peter J., and Oleksiy Kryvtsov. "State-dependent or time-dependent pricing: Does it matter for recent US inflation?." *The Quarterly Journal of Economics* 123.3 (2008): 863-904.
- * Blanchard, Olivier, and Jordi Galí. "Real wage rigidities and the New Keynesian model." *Journal of money, credit and banking* 39 (2007): 35-65.
- * Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans. "Nominal rigidities and the dynamic effects of a shock to monetary policy." *Journal of political Economy* 113.1 (2005): 1-45.
- Cochrane, John H. "Determinacy and identification with Taylor rules." *Journal of Political economy* 119.3 (2011): 565-615.

V. Fiscal Theory of the Price Level (1 session)

- * Cochrane, John H. "A frictionless view of US inflation." *NBER macroeconomics annual* 13 (1998): 323-384.
- * Cochrane, John H. "Money as stock." *Journal of Monetary Economics* 52.3 (2005): 501-528.
- Woodford, Michael. "Price-level determinacy without control of a monetary aggregate." *Carnegie-Rochester conference series on public policy*. Vol. 43. North-Holland, 1995.

VI. Imperfect Knowledge (1 session)

- Lucas Jr, Robert E. "Expectations and the Neutrality of Money." *Journal of economic theory* 4.2 (1972): 103-124.

- * Mankiw, N. Gregory, and Ricardo Reis. "Sticky information versus sticky prices: a proposal to replace the New Keynesian Phillips curve." *The Quarterly Journal of Economics* 117.4 (2002): 1295-1328.
- Mankiw, N. Gregory, and Ricardo Reis. "Imperfect information and aggregate supply." *Handbook of monetary economics*. Vol. 3. Elsevier, 2010. 183-229.
- Sims, Christopher A. "Rational inattention and monetary economics." *Handbook of monetary economics*. Vol. 3. Elsevier, 2010. 155-181.
- Woodford, Michael. *Imperfect common knowledge and the effects of monetary policy*. No. w8673. National Bureau of Economic Research, 2001.

VII. Inflation and Welfare (1 session)

- * Alvarez, Fernando, et al. "From hyperinflation to stable prices: Argentina's evidence on menu cost models." *The Quarterly Journal of Economics* 134.1 (2018): 451-505.

Section 2: Monetary policy (1/3 course)

VIII. Interest-Rate Rules, commitment, inflation targeting, time consistency, liquidity trap (6 sessions)

- * Clarida, Richard, Jordi Gali, and Mark Gertler. "The science of monetary policy: a new Keynesian perspective." *Journal of economic literature* 37.4 (1999): 1661-1707.
- *Clarida, Richard, Jordi Gali, and Mark Gertler. "Monetary policy rules and macroeconomic stability: evidence and some theory." *The Quarterly journal of economics* 115.1 (2000): 147-180.
- *Benhabib, Jess, Stephanie Schmitt-Groh'e, and Mart'ın Uribe (2002) "Avoiding Liquidity Traps," *Journal of Political Economy*, 110(3):535–563
- *Cochrane, John H. (2011a) "Determinacy and Identification with Taylor Rules," *Journal of Political Economy*, 119(3):565–615
- McCallum, Bennett T. (1981) "Price level determinacy with an interest rate policy rule and rational expectations," *Journal of Monetary Economics*, 8(3):319–329
- Orphanides, Athanasios (2004) "Monetary Policy Rules, Macroeconomic Stability, and Inflation: A View from the Trenches," *Journal of Money, Credit and Banking*, 36(2):151–175
- Galí, Jordi. *New perspectives on monetary policy, inflation, and the business cycle*. No. w8767. National Bureau of Economic Research, 2002.
- Schmitt-Groh'e, Stephanie and Mart'ın Uribe (2000) "Price level determinacy and monetary policy under a balanced-budget requirement," *Journal of Monetary Economics*, 45(1):211–246
- Taylor, John B. (1993) "Discretion versus policy rules in practice," *Carnegie-Rochester Conference Series on Public Policy*, 39(1):195–214
- Taylor, John B. (1999) "The robustness and efficiency of monetary policy rules as guidelines for interest rate setting by the European central bank," *Journal of Monetary Economics*, 43(3):655–679

- Woodford, Michael (2001b) “Monetary policy in the information economy,” Proceedings of the Jackson Hole Economic Policy Symposium, 25(1):297–370
- * Romer, Christina D. and David H. Romer (2004) “A New Measure of Monetary Shocks: Derivation and Implications,” American Economic Review, 94(4):1055–1084
- Jordà, Òscar, Moritz Schularick and Alan Taylor. 2017. “The Large and State Dependent Effects of Quasi-Random Monetary Experiments,” NBER Working Paper No. 23074
- * (operation) Bindseil, Ulrich (2016), “Evaluating monetary policy operational frameworks”, Jackson Hole Symposium, Federal Reserve Bank of Kansas City
- * King, M. "What has Inflation Targeting Achieved?" In The Inflation-Targeting Debate. Edited by B. Bernanke and M. Woodford. Chicago, IL: University of Chicago Press, 2005. ISBN: 9780226044712.
- * Svensson, L. "Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others." National Bureau of Economic Research Working Paper No. 10195 (December 2003): 1-24

IX. Unconventional Monetary Policy (2 session)

- Auerbach, Alan J. and Maurice Obstfeld (2005) “The Case for Open-Market Purchases in a Liquidity Trap,” The American Economic Review, 95(1):110–137
- *Bernanke, Ben S. and Vincent R. Reinhart (2004) “Conducting Monetary Policy at Very Low Short-Term Interest Rates,” American Economic Review, 94(2):85–90
- Bernanke, Ben S., Vincent R. Reinhart, and Brian P. Sack (2004) “Monetary Policy Alternatives at the Zero Bound: An Empirical Assessment,” Brookings Papers on Economic Activity, 35(2):1–100
- Campbell, Jeffrey R., Charles L. Evans, Jonas D.M. Fisher, and Alejandro Justiniano (2012) “Macroeconomic Effects of Federal Reserve Forward Guidance,” Brookings Papers on Economic Activity, 44(1):1–80
- *Cu´rdia, Vasco and Michael Woodford (2011) “The central-bank balance sheet as an instrument of monetary policy,” Journal of Monetary Economics, 58(1):54–79
- Eggertsson, Gauti B. and Michael Woodford (2003) “The Zero Bound on Interest Rates and Optimal Monetary Policy,” Brookings Papers on Economic Activity, 2003(1):139–211
- Gertler, Mark and Peter Karadi (2011) “A model of unconventional monetary policy,” Journal of Monetary Economics, 58(1):17–34
- * Bernanke, B., V. Reinhart, and B. Sack. "Monetary Policy Alternatives at the Zero Bound. An empirical assessment." Finance and Economics Discussion Series 2004-48. Washington, DC: Divisions of Research and Statistics and Monetary Affairs, Federal Reserve Board, 2004
- Goodfriend, Marvin (2011) “Central banking in the credit turmoil: An assessment of Federal Reserve practice,” Journal of Monetary Economics, 58(1):1–12 Carnegie Rochester Conference Series on Public Policy: The Future of Central Banking April 16-17, 2010
- Krugman, Paul R. (1998) “It’s Baaack: Japan’s Slump and the Return of the Liquidity Trap,” Brookings Papers on Economic Activity, 29(2):137–206 • Sargent, Thomas J.

(2011) “Where to Draw Lines: Stability Versus Efficiency,” *Economica*, 78(310):197–214

- Wallace, Neil (1981) “A Modigliani-Miller Theorem for Open-Market Operations,” *The American Economic Review*, 71(3):267–274
- Walsh, Carl E. (2009) “Using Monetary Policy to Stabilize Economic Activity,” *Proceedings of the Jackson Hole Economic Policy Symposium*, 33(1):246–296
- * Woodford, Michael (2012) “Methods of policy accommodation at the interest-rate lower bound,” *Proceedings of the Jackson Hole Economic Policy Symposium*, 36(1):185–288

X. Credit channel and balance sheet channel (3 sessions)

- * Bernanke, Ben S., and Mark Gertler. “Inside the black box: the credit channel of monetary policy transmission.” *Journal of Economic perspectives* 9.4 (1995): 27-48.
- * Jiménez, Gabriel, Steven Ongena, José-Luis Peydró and Jesús Saurina. 2012. “Credit Supply and Monetary Policy: Identifying the Bank Balance-Sheet Channel with Loan Applications,” *American Economic Review*, 2301-26.
- Schularick, Moritz, and Alan M. Taylor, 2012. “Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises,” *American Economic Review*, 1029-61

XI. Forward guidance and its puzzle (2 sessions)

- McKay, Alisdair, Emi Nakamura, and Jón Steinsson. “The power of forward guidance revisited.” *American Economic Review* 106.10 (2016): 3133-58.
- * Kaplan, Greg, Benjamin Moll, and Giovanni L. Violante. “Monetary policy according to HANK.” *American Economic Review* 108.3 (2018): 697-743.
- * Auclert, Adrien. “Monetary policy and the redistribution channel.” *American Economic Review* 109.6 (2019): 2333-67.
- Angeletos, George-Marios, and Chen Lian. “Forward guidance without common knowledge.” *American Economic Review* 108.9 (2018): 2477-2512.

Section 3: Banking and finance (1/6 course)

XII. Liquidity Provision and Consumption Smoothing (2 sessions)

- * Diamond, D. and P. Dybvig (1983) “Bank Runs, Deposit Insurance, and Liquidity”, *Journal of Political Economy*, Vol. 91, p. 401-19.
- * Holmstrom, Bengt, and Jean Tirole. “Financial intermediation, loanable funds, and the real sector.” *the Quarterly Journal of economics* 112.3 (1997): 663-691.
- Allen, F and D. Gale (2004) “Financial Intermediaries and Markets”, *Econometrica*, 72, 1023-1062.
- Gorton, G and L. Huang (2004) “Liquidity, Efficiency, and Bank Bailouts”, *American Economic Review*, 94, 455-483.
- Green E. and P. Lin (2000) “Diamond and Dybvig’s Classical Theory of Financial Intermediation: What’s Missing?”. *Federal Reserve Bank of Minneapolis Quarterly Review*, 24.

- Jacklin, C and S. Bhattacharya (1988) “Distinguishing Panics and Information based Bank Runs: Welfare and Policy Implications”, *Journal of Political Economy*, 96, 568-592.

XIII. Financial frictions (2 sessions)

- Carlstrom C. and T. Fuerst (1997) “Agency Costs, Net Worth and Business Fluctuations: A Computable General Equilibrium Analysis”, *American Economic Review*, 87, 893-910.
- * Stiglitz, Joseph E., and Andrew Weiss. "Credit rationing in markets with imperfect information." *The American economic review* 71.3 (1981): 393-410.
- Bernanke, Ben S., Mark Gertler, and Simon Gilchrist. "The financial accelerator in a quantitative business cycle framework." *Handbook of Macroeconomics* 1 (1999): 1341-1393.
- * Kiyotaki, Nobuhiro, and John Moore. "Liquidity, business cycles, and monetary policy." *Journal of Political Economy* 127.6 (2019): 2926-2966.

XIV. Bubble and panics (2 sessions)

- Tirole J. (1982), “On the Possibility of Speculation under Rational Expectations”, *Econometrica*, 50, 1163-1181.
- Allen, Morris and Shin (2006), “Beauty Contests and Iterated Expectations in Asset Markets”, *Journal of Financial Studies*, 19, 719-752.
- Tirole, J (1985) “Asset Bubbles and Overlapping Generations”, *Econometrica*, 53, 1499-1528.
- * Abreu, D and M. Brunnermeier (2003) “Bubbles and Crashes” *Econometrica*, 71, 173-204.
- Harrison J. and D. Kreps, (1978), “Speculative Investor Behavior in a Stock Market with Heterogeneous Expectations”, *Quarterly Journal of Economics*, 92, 323-336.
- Angeletos G.M. and I. Werning (2006) “Crises and Prices: Information Aggregation, Multiplicity and Volatility” *American Economic Review*, 96, 1720-1736.
- Hellwig, C and G. Lorenzoni (2009), “Bubbles and Self-Enforcing Debt”, *Econometrica*, 77, 1137-1164.
- Allen, F. and G. Gorton (1993), “Churning Bubbles”, *Review of Economic Studies*, 60, 813-836.
- Allen F. and D. Gale (1998), “Optimal Financial Crises”, *Journal of Finance, Papers and Proceedings*, 53, 1245-1284.
- * Morris, S. and H.S. Shin (1998) “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks”, *American Economic Review*, 88, 587-597.
- Morris, S. and H.S. Shin (2000) “Rethinking Multiple Equilibria in Macroeconomics”, *NBER Macroeconomics Annual*, 139-161. (See also de discussions by Andy Atkeson and Helene Rey).
- Gorton G. and L. Huang, (2006) “Bank Panics and the Endogeneity of Central Banking”, *Journal of Monetary Economics*, 53, 1613-1629.
- Williamson, S (1988), “Liquidity Banking and Bank Failures”, *International Economic Review*, 29, 25-43.

- Banerjee, A. (1992) "A Simple Model of Herd Behavior" *Quarterly Journal of Economics*, 107, 797-817.
- Caplin, A. and J. Leahy (1994) "Business as Usual, Market Crashes, and Wisdom After the Fact", *American Economic Review*, 84, 548-565.

Section 4: Open economy and exchange rate (1/6 course)

XV. Open economy monetary policy (3 sessions)

- * Obstfeld, Maurice, and Kenneth Rogoff. "Exchange rate dynamics redux." *Journal of political economy* 103.3 (1995): 624-660.
- McCallum, Bennett, and Edward Nelson. "Monetary policy for an open economy: an alternative framework with optimizing agents and sticky prices." *Oxford Review of Economic Policy* 16.4 (2000): 74-91.
- Taylor, John B. "The role of the exchange rate in monetary-policy rules." *American Economic Review* 91.2 (2001): 263-267.
- Clarida, Richard, Jordi Gali, and Mark Gertler. "A simple framework for international monetary policy analysis." *Journal of monetary economics* 49.5 (2002): 879-904.
- Corsetti, Giancarlo, and Paolo Pesenti. "Welfare and macroeconomic interdependence." *The Quarterly Journal of Economics* 116.2 (2001): 421-445.
- Gertler, Mark, Simon Gilchrist and Fabio Natalucci, "External Constraints on Monetary Policy and the Financial Accelerator," *Journal of Money, Credit and Business*, 2007.
- Curdia, Vasco, "Monetary Policy Under Sudden Stops," 2007.
- * Gali, Jordi, and Tommaso Monacelli. "Monetary policy and exchange rate volatility in a small open economy." *The Review of Economic Studies* 72.3 (2005): 707-734.
- Schmitt-Grohé, Stephanie, and Martin Uribe. "Optimal simple and implementable monetary and fiscal rules." *Journal of monetary Economics* 54.6 (2007): 1702-1725.
- Adolfson, Malin, et al. "Bayesian estimation of an open economy DSGE model with incomplete pass-through." *Journal of International Economics* 72.2 (2007): 481-511.
- Gertler, Mark, Simon Gilchrist, and Fabio M. Natalucci. "External constraints on monetary policy and the financial accelerator." *Journal of Money, Credit and Banking* 39.2-3 (2007): 295-330.
- Corsetti, Giancarlo, and Paolo Pesenti. "International dimensions of optimal monetary policy." *Journal of Monetary economics* 52.2 (2005): 281-305.

XVI. Exchange rate (3 sessions)

- Eichengreen, Barry. *Globalizing capital: a history of the international monetary system*. Princeton University Press, 2019.
- Shambaugh, Jay C. "The effect of fixed exchange rates on monetary policy." *The Quarterly Journal of Economics* 119.1 (2004): 301-352.
- * Chari, Varadarajan V., Patrick J. Kehoe, and Ellen R. McGrattan. "Can sticky price models generate volatile and persistent real exchange rates?." *The review of economic studies* 69.3 (2002): 533-563.

- Ghironi, Fabio, and Marc J. Melits. "International trade and macroeconomic dynamics with heterogeneous firms." *The Quarterly Journal of Economics* 120.3 (2005): 865-915.
- * Farhi, Emmanuel, and Xavier Gabaix. "Rare disasters and exchange rates." *The Quarterly Journal of Economics* 131.1 (2015): 1-52.
- Gabaix, Xavier, and Matteo Maggiori. "International liquidity and exchange rate dynamics." *The Quarterly Journal of Economics* 130.3 (2015): 1369-1420.