

Advance Money and Banking
ECO 9430
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In this course, we develop more themes in monetary economics. The course develops with both lecture and discussion.

In the outline below, I have listed a set of papers. This list comprises a reading that a person seeking to pass the comprehensive examination in monetary economics should be familiar with. Feasibility is a problem; one cannot read every paper on this list and keep with all the other demands. I would suggest that papers denoted with a "*" are highly influential. There are older papers in the same genre which usually provide some background on the questions that people were trying tackle; in other words, important papers that laid the groundwork for the influential contributions. It would be wise to skim these papers to be familiar with the history and tradition in the field. My primary aim is to give you a broad perspective on the model economies in which money is valued.

Periodically, I will give out problem sets. These problem sets are for your own practice. In addition, I expect you to be prepared for class. There will be a midterm that accounts for 30%. I will assign a group presentation during the semester. The presentation accounts for 40% of the semester grade. The comprehensive final will account for the remaining 30% of your grade.

- I. A primer on what constitutes a monetary model – Wallace (1980)
 - A. What do we want in a model of money:
 1. Clower, *Western Economic Journal*, 1967
 2. Kareken and Wallace, @MME, p.1
 3. Cass and Shell, @MME, p. 251

- II. Basics
 - A. Models of Fiat Money: Monetary policy and the Friedman rule
 1. MUIF: exchange and production [see, Walsh, Chaps 2 & 3]
 - 2.
 3. Townsend, @MME, p. 265* – the basic reference for the turnpike model

 4. Wallace, @MME, p.13* – the basic reference of money in the OG setup
 - a. additional frictions in the OG setup: reserve requirements, random relocation
 - b. Champ, Smith and Williamson, *Canadian Journal of Economics* 1996*
 - c. How robust the Friedman rule is : Chari, Christiano, and Kehoe, *Journal of Monetary Economics*, 1996* Correia and Teles, *Journal of Monetary Economics*, 1996*

- d. When the Friedman rule breaks down—Freeman, *Journal of Money, Credit, and Banking*, 1996* Freeman and Haslag, *Economic Theory*, 1996*, Haslag and Martin, *JMCB* 2007
 - e. Dynamics—Abel, *Journal of Monetary Economics*, 1985
 - D. See also Walsh for references to cash-in-advance and shopping time models
- B. Deeper into Search
- 1. some basics—1st generation
 - a. Freeman, *International Economic Review*, 1989
 - b. Kiyotaki and Wright, *Journal of Political Economy*, 1989*
 - 2. price level determination—2nd generation
 - a. Shi, *Econometrica*, 1997
 - b. Trejos and Wright, *Journal of Political Economy*, 1995
 - 3. uses for policy analyses—3rd generation
 - a. Lagos and Wright, *Journal of Political Economy*
- III. Money in a Payment System
- A. Inside and outside money—Freeman, *American Economic Review*, 1996*
 - B. Payment system risk—Freeman paper (again) and
- IV. Money and Output
- A. Activist Monetary Policy
 - 1. Lucas and Stokey, *Journal of Monetary Economics*, 1984
 - 2. Champ and Freeman, *Journal of Monetary Economics*, 1990
 - B. Nonneutrality (Growth)
 - 1. Jones and Manuelli, *Journal of Economic Dynamics and Control*, 1996
 - 2. Haslag, *Economic Inquiry*, 1998
- V. Money and contracting
- A. Money is memory—Kocherlakota, *Journal of Economic Theory*, 1998*
- VI. Additional suggested reading
- A. Legal Restrictions and Seigniorage
 - 1. Wallace, Minneapolis Fed *QR*, 1983
 - 2. Romer, *Journal of Monetary Economics*, 1985
 - 3. Freeman, *Journal of Monetary Economics*, 1987
 - 4. Haslag and Young, *Review of Economic Dynamics*, 1998
 - B. Interest on Reserves
 - 1. Smith, *Review of Economic Studies*, 1985
 - C. Open Market Operations

1. Auernheimer, *Journal of Political Economy*, 1974
2. Freeman and Haslag, *Economic Theory*, 1995

VI. Commitment problems with money

A. Time Inconsistency

1. Kydland and Prescott, *Journal of Political Economy*, 1977
2. Calvo, *Econometrica*, 1978
3. Barro and Gordon, *Journal of Political Economy*, 1983

B. Monetary Policy Games

1. Canzoneri, *International Economic Review*, 1992
2. Balke and Haslag, *International Economic Review*, 1992

C. Constitutional Arrangements

1. Garfinkel, *American Economic Review*, 19
2. Waller and Walsh, *American Economic Review*, 1996