

Central Banking Policies
ECO 9430
Fall 2019

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Office hrs: Wednesday 1:30pm – 3:00pm and by appt.

In this course, we develop more themes in monetary economics. I will expect lots of discussion during the semester.

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. I will add to this list as the semester goes, giving you a heads up on what papers to read for the next class.

A mid term exam will account for 50% of your grade.

The suggested text for this course is *Money, Payments, and Liquidity* by Nosal and Rocheteau. In addition, it may be useful to obtain a copy of *Modelling Monetary Economies, 4th ed.* by Champ, Freeman and Haslag. References in the reading list to MME is the *Model of Monetary Economies* which is a collection papers by Kareken and Wallace. You can obtain this from the FRB Minneapolis at http://www.minneapolisfed.org/publications_papers/books/models/ .

- I. Overview: Walrasian models in which people hold money
 - A. Critiques of old monetary models – Wallace (1980)
 - B. Models of Fiat Money: Monetary policy and the Friedman rule
 - 1. MUIF: exchange and production
 - 2. Townsend, @MME, p. 265* – the basic reference for the turnpike model

Useful reading:

- 1. Clower, *Western Economic Journal*, 1967
- 2. Kareken and Wallace, @MME, p.1
- 3. Cass and Shell, @MME, p. 251

- a. How robust the Friedman rule is : Chari, Christiano, and Kehoe, *Journal of Monetary Economics*, 1996* Correia and Teles, *Journal of Monetary Economics*, 1996*

- b. 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
- c. Dynamics—Abel, *Journal of Monetary Economics*, 1985
- 3. Wallace, @MME, p.13* – the basic reference of money in the OG setup
 - d. additional frictions in the OG setup: reserve requirements, random relocation
 - e. Champ, Smith and Williamson, *Canadian Journal of Economics* 1996* (random relocation)
 - f. Money is memory—Kocherlakota, *Journal of Economic Theory*, 1998*

(these two sections will take about 2-3 weeks)

II. Money in a Payment System

- A. Inside and outside money—Freeman, *American Economic Review*, 1996*
- B. Payment system risk—Freeman paper (again) and Gu, et. al.

III. Search models

- A. Basic physical environment with a matching element
 - i. Credit compared with money (Chaps 1 and 2 in Nosal and Rocheteau)
- B. Why money (memory again) (Chap 3 Rocheteau, Lagos and Wright, *Journal of Political Economy*, 2005*)
- C. Optimal quantity of money (Nosal and Rocheteau Chap 6)

V. 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

Canzoneri, *International Economic Review*, 1992

Morris and Shin, *American Economic Review Papers and Proceedings*, 2018

Balke and Haslag, *International Economic Review*, 1992