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 economies should be familiar with. Feasibility is a problem; one cannot read every paper on this list and keep up 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 to 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/](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:
   2. Kareken and Wallace, @MME, p.1
   3. Cass and Shell, @MME, p. 251

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)

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

II. Money in a Payment System
   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)
   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
   B. Interest on Reserves
   C. Open Market Operations

VI. Commitment problems with money
   A. Time Inconsistency