

ECON 4905 SPRING 2016 Syllabus and Reading List

Economics 4905  
**Financial Fragility and the Macroeconomy**  
Cornell University  
Uris Hall 204  
MW 2:55 PM to 4:10 PM

Instructor: Karl Shell  
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402 D Uris Hall  
Office Hours: M: 4:20 to 5:20  
W: 1:05 to 2:05

Course Assistants: Carlos Hernandez, clh265@cornell.edu  
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Prerequisites: Comfort with Calculus;  
Intermediate Macro or Accelerated Macro

Requirements: 1 paper and/or 1 classroom presentation, weekly problem sets,  
participation, attendance, 2 prelims, no final

Assignments: On [www.karlshell.com](http://www.karlshell.com) and Blackboard

Evaluation: Participation 10%  
Homework 10%  
First Prelim 20%  
Second Prelim 20%  
Presentation 40% (see Presentation Tips)  
Extra credit is also available.

### **First Reading List**

#### **Articles**

Articles can be found at CU e-Library or at [www.karlshell.com](http://www.karlshell.com).

From a Cornell computer, articles can also be read and downloaded through the reading list posted on [www.karlshell.com](http://www.karlshell.com).

### Money & Finance

- Baumol, William J. “[The Transactions Demand for Cash: An Inventory Theoretic Approach](#).” The Quarterly Journal of Economics 66.4 (1952): 545.
- Yves Balasko & Karl Shell, “[Lump-Sum Taxation: The Static Economy](#),” in General Equilibrium, Growth, and Trade: The Legacy of Lionel McKenzie, II. (R. Becker, M. Boldrin, R. Jones, and W. Thomson, eds.) New York: Academic Press (1993) 168-180.
- [Shell website section on Taxes Denominated in Money](#)
- K. J. Arrow, “[The Role of Securities in the Optimal Allocation of Risk-Bearing](#),” Review of Economic Studies, April 1964, 91-96.

### Banking & Bank Runs

- Huberto Ennis & Todd Keister, “[On the Fundamental Reasons for Bank Fragility](#),” Economic Quarterly, Federal Reserve Bank of Richmond 96, No. 1 (2010) 33-58
- Douglas W. Diamond & Philip H. Dybvig, “[Bank Runs, Deposit Insurance, and Liquidity](#),” Journal of Political Economy 91 (June 1983) 401-419
- James Peck & Karl Shell, “[Equilibrium Bank Runs](#),” Journal of Political Economy, Vol. 111, No. 1 (February 2003) 103-123
- Karl Shell and Yu Zhang, “[Bank Runs: The Pre-Deposit Game](#),” forthcoming.

### Overlapping Generations

- Karl Shell & Bruce Smith, “[Overlapping-Generations Model and Monetary Economics](#),” in the New Palgrave Dictionary of Money and Finance (J. Eatwell & P. Newman, eds.) Vol 3, London, Macmillan, (1992) 104-109

## ECON 4905 SPRING 2016 Syllabus and Reading List

- Paul A. Samuelson, “[An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money](#),” Journal of Political Economy, (December 1958) 467-482
- Karl Shell, “[Notes on the Economics of Infinity](#),” Journal of Political Economy, Vol. 79(5), (September/October 1971) 1002-1011 Appears in Spanish as “Notas sobre las economías del infinito” (translation by M. Santos), Cuadernos Economicos de I.C.E., Vol. (1), (1987) 31-39

### Excess Volatility

- Karl Shell, “[Sunspot Equilibrium](#)” in The New Palgrave: A Dictionary of Economics, 2nd Edition (L. Blume & S. Durlauf, eds.) Palgrave Macmillan (2008). Also at The New Palgrave Dictionary of Economics Online (03 June 2009)
- David Cass & Karl Shell, “[Do Sunspots Matter?](#)” Journal of Political Economy, Vol. 91(2) (April 1983) 193-227

### BitCoin

- Nakamoto, Satoshi (October 2008). “[Bitcoin: A Peer-to-Peer Electronic Cash System](#)”
- [BitCoin Wiki's academic research page](#)

### Books

Books are optional, but might be good sources for papers and presentations. Electronic (and possibly other) versions are available from the Cornell library.

- “Everything is Obvious: Once You Know the Answer”, Duncan Watts, Crown Business (Random House), 2011.
- This Time is Different: Eight Centuries of Financial Folly, Carmen Reinhart & Kenneth Rogoff, Princeton University Press, 2009
- Microeconomics of Banking, Second Edition, Xavier Freixas & Jean-Charles Rochet, MIT Press, 2008

## ECON 4905 SPRING 2016 Syllabus and Reading List

- Stress Test: Reflections on Financial Crises, Timothy F. Geithner, Crown Publishers, 2014
- Understanding Financial Crises (Clarendon Lectures in Finance) Franklin Allen & Douglas Gale, Oxford University Press, 2009
- Manias, Panics and Crashes: A History of Financial Crises, Sixth Edition, Charles P. Kindleberger & Robert Z. Aliber with foreword by Robert M. Solow, Palsgrave Macmillan, 2011
- On the Brink: Inside the Race to Stop the Collapse of the Global Financial System, Henry M. Paulson, Jr., Hachette, 2010
- Five Years Later: On the Brink, A Look Back... , Henry M. Paulson Jr., Business Plus, 2013. Free on Kindle
- Misunderstanding Financial Crises: Why We Don't See Them Coming, Gary B. Gorton, Oxford University Press, 2010
- Slapped by the Invisible Hand, The Panic of 2007, Gary B. Gorton, Oxford University Press, 2010
- A Demon of Our Own Design, Richard Bookstaber, Wiley, 2007
- Irrational Exuberance, Robert J. Shiller, Princeton University Press, 2005
- The Housing Boom and Bust, Thomas Sowell, Basic Books, 2009
- The World Depression, 1929-1939, Charles P. Kindleberger, University of California Press, 1973
- The Great Crash 1929, John Kenneth Galbraith, Houghton Mifflin, 1988
- Lombard Street, Walter Bagehot, Smith, Elder & Co., 1915 or later edition
- The South Sea Bubble, Viscount Erleigh, Greenwood Press (& Peter Davies Limited), 1933
- Founding Choices: American Economic Policy in the 1790's, Douglas A. Irwin and Richard Sylla (editors), University of Chicago Press (for the NBER), 2011.

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- Capitalism, Socialism and Democracy, Joseph A. Schumpeter, New York: Harper, 1950.
- Phishing for Phools, George Akerlof and Robert Shiller, Princeton, 2015.
- Why Minsky Matters, L. Randall Wray, Princeton, 2016.
- The Housing Boom and Bust, Revised Edition, Thomas Sowell, Basic Books, 2010.
- Manias, Panics, and Crashes, Charles P. Kindleberger, Robert Z. Aliber, Sixth Edition, Palgrave Macmillan, 2011.
- Xavier Freixas and Jean-Charles Rochet, Microeconomics of Banking, Second Edition, MIT.
- Gary B. Gorton, Slapped by the Invisible Hand, Oxford 2017.
- Franklin Allen and Douglas Gale, Understanding Financial Crises, Oxford, 2007.
- Timothy F. Geithner, Stress Test, Crown, 2014.
- Carmen M. Reinhart and Kenneth S. Rogoff, This Time is Different, Princeton, 2011.
- Duncan J. Watts, Everything is Obvious, Crown, 2011.