

Economics 4905: Financial Fragility and the Macro-economy

MW 2:55 pm to 4:10 pm

Statler Hall 291

(Room Subject to Possible Change)

Requirements

- Comfort with calculus
- Intermediate macro, *or* accelerated macro

Karl Shell

- www.karlshell.com
- karl.shell@cornell.edu
- Room 402D Uris Hall
- **Office Hours:**
 - M: 4:20 to 5:20 pm
 - W: 1:05 to 2:05 pm
 - By appointment

Assistants

- Noah Kwicklis
 - ndk36@cornell.edu
- Nicole Schmit
 - nrs77@cornell.edu

Evaluation

• Participation (including attendance)...	20%
• Problem Sets.....	10%
• First Prelim.....	15%
• Second Prelim.....	15%
• Presentation.....	40%
(or paper; see presentation tips)	
Total.....	100%

- Extra credit is available for an extra presentation, an extra paper, and/or...
- **No Final**

This Course

- Integration of macro with finance
 - “Real economy”
 - “Nominal economy”
 - Invalid dichotomy

This Course, Continued

- Economics
- Finance
- Paper assets versus commodity assets
- Bank runs
- Banking
- History
- Theory

Resources

- Articles
 - www.karlshell.com, or
 - CU e-Library
- Books
 - CU e-Library, or
 - Amazon, Kindle, or Similar

Using www.karlshell.com

- From a CU computer, click on the URL to download an article from either the CU library or directly (in some cases) from www.karlshell.com.
- Direct downloads do not require a CU computer.

Money and Finance

- Inside Money
- Outside Money

- We will see that for inside money, we will have an “implicit quantity theory,” except for worthless money
- We will see that for outside money, the quantity theory is very misleading

Readings for Next Lecture (Lecture 2)

- 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](#)

- Important, but difficult, optional reading on real vs. nominal derivative commodities:
 - K. J. Arrow, “[The Role of Securities in the Optimal Allocation of Risk-Bearing](#),” Review of Economic Studies, April 1964, 91-96.
 - This paper is a classic. I will point out a subtle, but important, error.
- Possible student lecture:
 - Baumol, William J. “[The Transactions Demand for Cash: An Inventory Theoretic Approach](#).” The Quarterly Journal of Economics 66.4 (1952): 545.
 - Baumol explains the transactions demand for money, using inventory theory.

Some Coming Attractions

- History of banking, mostly in the US
- Bank runs
- Samuelson's overlapping generations economy
 - Bubbles
 - Welfare
 - $T = \infty$

- Economics is an empirical science. We build models of the economy. We test models against observed data. These are tests in which the model fails or does not fail. The model never “passes.”
- What do you hope to get from this course?