We have posted Problem Set 1, which is due on Monday, September 18.
You are invited to attend the Cornell/Penn State Macro-economics Workshop, in the Fleming Lecture Room, 226 Weill Hall, Saturday, September 16 8:55am to 4:45pm, and Sunday, September 17, 9:00am to 12:15pm
Absence of Money Illusion:

Let $P^m$ be an equilibrium price of money associated with the fiscal policy $\tau$. If instead the fiscal policy is $\lambda \tau$ where the scalar lambda is $0 < \lambda \leq 1$, then $P^m/\lambda$ is an equilibrium price of money.

The Quantity Theory of Money:

Let $P^m$ be the equilibrium price of money associated with the fiscal policy $\tau$. Then, $P^m/\lambda$ is the equilibrium price of money associated with $\lambda \tau$.

Our models are consistent with AMI, but they are not consistent with QTM.
Banking History

- The gold-smith
- Usury
- Florence and Northern Italy
- Genoa
- Venice
- Bruges
- Hanse
- Bank of England
- First Bank of the United States
- Alexander Hamilton and Thomas Jefferson
- Revolutionary War Debt
- French and Cayugas
- Cayugas and the Revolution
Four English Groups in America

- Puritans. New England from East Anglia.
- Quakers. Delaware Valley from Wales and the mid-lands
- Southern Gentry. *nth* sons and distressed sons of the aristocracy.
- Back country. From the borders.

Also

- New Amsterdam
- New Netherlands
Banking History

- Andrew Jackson and the collapse of the central bank
- Antipathy to cities and finance by planters and backwoodsmen.
  - Main Street versus Wall Street
- English Civil War, the American Revolution, the American Civil War
The Federal Reserve

- **Board** of Governors
- Regional Banks
- Historical primacy of the NY Fed
- Open Market Committee
► Fiscal policy and the Deficits (Surplus)
► Debt
► Monetary Policy: The composition of the public debt
► Interest-bearing
► Non-interest-bearing
► QE
► Commercial banking, depository institutions
► Shadow banking
Banking Instruments:

- Demand deposits
- Time deposits
- Secured loans
  - Mortgages
- Unsecured loans
  - Personal
  - Business
- Line of Credit
- Commercial Paper
- Financial intermediation
- Dis-intermediation
- Bank runs
Finance

- Miracle of compound interest
  - Rule of 70
- Corporate equity (common stocks)
- Corporate bonds (debt)
- Preferred stocks (debt)
- Leverage (or gearing)
  - Debt ÷ (equity + debt)
- Limited liability
- Corporate income tax
  - Double taxation of common stocks
  - Interest deductible
  - Dividends not deductible
Reading List

- 4 papers on banking and bank runs from reading
- Diamond-Dybvig classic
- Ennis-Keister survey
- Peck-Shell
  - Combining ”sunspots” with risk of panic-based runs
- Shell-Zhang
  - Bank runs, mechanism design, and game theory
Next Lecture (4) is on Decision-Making under Uncertainty.
Background for Bank Runs.