

Economics 4905
Financial Fragility and the Macro-economy
MW 2:55 pm to 4:10 pm
Uris Hall G26

Professor: Karl Shell
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Proposed Office Hours:
M 1:30-2:30 PM, W 1:30-2:30 PM, or by appointment

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Assignments: www.karlshell.com -> Courses -> Current -> 4905 Fall 2017

Evaluation: Participation (including attendance) 20%
Problem Sets 10%
First Prelim 20%
Second Prelim 20%
Presentation 30%
Extra credit is available for an extra presentation, an extra paper, and/or...
(No Final)

Articles: Can be found at www.karlshell.com or at CU e-Library

Books: Can be found at CU e-Library or purchased from Amazon Kindle or another source

From a CU Computer: Readings from the reading list can be downloaded by clicking on the URL or the hyperlinked text.

Requirements: (1) Comfort with calculus
(2) Econ 3020, Accelerated Macro or Econ 3040 Intermediate Macro
(3) Econ 3010, Accelerated Micro or Econ 3030 Intermediate Micro

Readings, Group A:

Readings from this group are keyed to Professors Shell's lectures, but students are encouraged to volunteer for these.

Money and Finance

- Baumol, William J. "[The Transaction 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

- [Shell website section on Financial Fragility](#)
- Douglas W. Diamond & Philip H. Dybvig, "[Bank Runs, Deposit Insurance, and Liquidity,](#)" Journal of Political Economy 91 (June 1983) 401-419
- Huberto Ennis & Todd Keister, "[On the Fundamental Reasons for Bank Fragility,](#)" Economic Quarterly, Federal Reserve Bank of Richmond 96, No. 1 (2010) 33-58.
- 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,](#)" Macroeconomic Dynamics, forthcoming.

Overlapping Generations

- 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 & 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
- 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 economias del infinite" (translation by M. Santos), Cuadernos Economics de I.C.E., Vol. (1), (1987) 31-39.

Excess Volatility

- Karl Shell, "[Sunspot Equilibrium](#)" in The 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.

Readings, Group B:

Readings from this group are optional. They supplement the lectures and they might be a source of presentations. More books for Group B will be added during the course.

- Xavier Freixas and Jean-Charles Rochet, *Microeconomics of Banking*, Second Edition, MIT.
- Bruce Champ, Scott Freeman, Joseph Haslag, *Modeling Monetary Economies*, Third Edition, Cambridge.
- Franklin Allen and Douglas Gale, *Understanding Financial Crises*, Oxford, 2007.

Readings, Group C:

Group C readings are also optional. They might serve as sources or presentation topics. More readings will be added to Group C as the semester progresses.

- *Stress Test: Reflections on Financial Crises*, Timothy F. Geithner, Crown Publishers, 2014.
- *Manias, Panics and Crashes: A History of Financial Crises*, Sixth Edition, Charles P. Kindleberger & Robert Z. Aliber with foreword by Robert M. Solow, Palgrave 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.
- *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.

- *Understanding Financial Crises*, Franking Allen and Douglas Gale, Oxford, 2007.
- *Generational Accounting*, Laurence J. Kotlikoff, Macmillan 1993.
- *Jimmy Stewart is Dead*, Wiley, Laurence J. Kotlikoff, 2010.
- [Financial Intermediation, Loanable Funds, and the Real Sector](#), Bengt Holmstrom and Jean Tirole, The Quarterly Journal of Economics, Vol 112, No. 3, Aug 1997, 663-691.

Other possible presentation topics:

- Demography and public finance
- Housing and housing finance
- Social security
- Student loans
- Financial derivatives
- Venture capitalism
- Moral hazard in banking, finance etc.
- Index numbers
- Stock market indexes

Office meetings:

- Professor Shell encourages students to visit his office.
- It is strongly advised that you meet with Professor Shell on choosing and preparing for your presentations.