



Revised 29 July 2014

Economics 7320: Monetary Economics Fall 2014 : Revised

Prerequisite: Economics 6140 or the consent of the instructor. 7310 is **NOT** a pre-req.

Instructor: Karl Shell, 402 Uris Hall, www.karlshell.com

Office Hours: TBD

Meetings: 1 2-hour or 3-hour meeting per week. Wednesdays, 7PM to 10PM in 498 Uris Hall

Requirements: Students will be expected to attend and participate in all meetings. There will be faculty presentations and student presentations. Each student will be expected to present and/or write at least one paper.

Cornell/Penn State Macro Workshop: Econ 7320 students are urged to participate in the CU/PSU macro workshop, which meets semi-annually. The fall meeting is at Cornell all day Saturday, September 27 and until late lunch on Sunday, September 28, probably in Fleming Lecture Room, 266 Weill Hall.

First Tentative Reading List

The group will propose other topics and / or alternative topics.

From a Cornell computer, the articles can be read and downloaded through the reading list posted on www.karlshell.com

Class notes can be accessed through this [link](#).

I. Background Material: Securities, balancedness, bonafidelity, Ricardian equivalence

[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.

II. Overlapping Generations

II. A. Overview

[KS website section on Overlapping Generations](#)

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

Yves Balasko and 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.

II. B. Other 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.

Peter A. Diamond, "[National Debt in a Neoclassical Growth Model](#)," American Economic Review, Vol. 55(5), December 1965, 1126-1150.

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. 35(1), 1987, 31-39.)

David Gale, "[Pure Exchange Equilibrium of Dynamic Economic Models](#)," Journal of Economic Theory, Vol. 6(1), February 1973, 12-36.

Robert Barro, "[Are Government Bonds Net Wealth?](#)" Journal of Political Economy, Vol 82(6), November/December 1974, 1095-1117.

Karl Shell, "[Monnaie et Allocation Intertemporelle](#)," [title and abstract in French, text in English] mimeo, Séminaire d'Econométrie Roy-Malinvaut, Centre National de la Recherche Scientifique, Paris, November 21, 1977. (Forthcoming in Macroeconomic Dynamics.)

David Cass, Masahiro Okuno and Itzhak Zilcha, "[The Role of Money in Supporting the Pareto Optimality of Competitive Equilibrium in Consumption-Loan Type Models](#)," Journal of Economic Theory, Vol. 20(1), February 1979, 41-80.

Yves Balasko and Karl Shell, "[The Overlapping-Generations Model, I: The Case of Pure Exchange without Money](#)," Journal of Economic Theory, Vol. 23(3), December 1980, 281-306.

Yves Balasko and Karl Shell, "[The Overlapping-Generations Model, II: The Case of Pure Exchange with Money](#)," Journal of Economic Theory, Vol. 24(1), February 1981, 112-142. See also "Erratum," Journal of Economic Theory, Vol. 25(3), December 1981, 471.

Yves Balasko and Karl Shell, "[Lump-Sum Taxes and Transfers: Public Debt in the Overlapping-Generations Model](#)," in Essays in Honor of Kenneth J. Arrow, Vol. II: Equilibrium Analysis (W. Heller, R. Starr, and D. Starrett, eds.), New York: Cambridge University Press, 1986, Chapter 5, 121-153.

Costas Azariadis, "[Self-Fulfilling Prophecies](#)," Journal of Economic Theory, Vol. 25(3), December 1981, 380-396.

III. Bank Runs

III. A. Overview & Motivation

[KS web site on Financial fragility](#)

Huberto Ennis & Todd Keister, [On the Fundamental Reasons for Bank Fragility](#), Economic Quarterly, Federal Reserve Bank of Richmond (2010), 96 (1), 33-58

Allen F. and Gale D., [Understanding Financial Crises](#), Oxford University Press, 2007. Chapter 1.

III. B. The Baseline Model

Freixas, Xavier and Jean-Charles Rochet. [Microeconomics of Banking](#), 2nd Edition. MIT Press, 2008.

Diamond, Douglas W., and Dybvig, Philip H. "[Bank Runs, Deposit Insurance, and Liquidity](#)," Journal of Political Economy 91 (June 1983): 401-19.

Wallace, Neil. "[Another Attempt to Explain an Illiquid Banking System: The Diamond and Dybvig Model with Sequential Service Taken Seriously](#)." Fed. Reserve Bank Minneapolis Q. Rev. 12 (Fall 1988): 3-16.

Peck, James, and Shell, Karl. "[Equilibrium Bank Runs](#)," Journal of Political Economy, Vol. 111, No. 1, February 2003, 103-123.

Peck, James, and Shell, Karl. "[Bank Portfolio Restrictions and Equilibrium Bank Runs](#)." Journal of Monetary Economics 57 (2010) No. 4 (May 2010): 420-427.

III. C. Books

Freixas, Xavier and Jean-Charles Rochet. [Microeconomics of Banking](#), 2nd Edition. MIT Press.

Allen F. and Gale D., [Understanding Financial Crises](#), Oxford University Press, 2007. 2007.

III. D. Financial Contagion

Chao Gu (2011), [Herding and Bank Runs](#), Journal of Economic Theory, 2011. 163-188

Allen, Franklin and Douglas Gale (2000), "[Financial contagion](#)", Journal of Political Economy 108: 1-33

Allen F. and Gale D., [Understanding Financial Crises](#), Oxford University Press, 2007. Chapter 1.

III. E. Jacklin's Critique

Jacklin, Charles J. 1987. "[Demand Deposits, Trading Restrictions, and Risk Sharing](#)." In Contractual Arrangements for Intertemporal Trade, edited by Edward C. Prescott and Niel Wallace. Minneapolis: University of Minnesota Press, 26-47.

III. F. Asymmetric Information

Gu, Chao (2011), [Noisy Sunspots and Bank Runs](#), Macroeconomic Dynamics, 2011 vol. 15, issue 03, pages 398-418.

III. G. Deposit Freezes & Deposit Insurance

Wallace, Niel (1996) "[Narrow banking meets the Diamond-Dybvig model](#)", Federal Reserve Bank of Minneapolis Quarterly Review 20 (Winter): 3-13.

Ennis, Huberto M. and Todd Keister (2009) "[Bank runs and institutions: The perils of intervention](#)", American Economic Review 99: 1588-1607

III. H. Bailouts

Todd Keister, [Bailouts and financial fragility](#), Federal Reserve Bank of New York, Staff Report 473, Revised January 2014.

III.I. Shadow Banking

Gary Gorton & Andrew Metricka (2011), "[Securitized banking and the run on the repo](#)", Journal of Financial Economics.

Gary Gorton, "[Slapped by the invisible hand: the panic of 2007](#)", Oxford University Press, 2010

Harald Uhlig, "[A model of a systemic bank run](#)", Journal of Monetary Economics (2010), 57(1) 78-96.

III.J. Some Other Important References

Andolfatto, David and Ed Nosal, 2008. "[Bank Incentives, Contract Design and Bank Runs.](#)" Journal of Economic Theor 142 (September): 28-47.

Andolfatto, David, Ed Nosal, and Neil Wallace. 2007. "[The Role of Independence in the Green-Lin Diamond Dybvig Model.](#)" Journal of Economic Theory 137 (November): 709-15.

Bryant, John. 1980. "[A model of Reserves, Bank Runs, and Deposit Insurance.](#)" Journal of Banking and Finance 4 (December): 335-44 (**pre-dates DD**).

Cooper, Russell, and Thomas W. Ross. 1998. "[Bank Runs: Liquidity Costs and Investment Distortions.](#)" Journal of Monetary Economics 41 (February): 27-38.

De Nicoló, Gianni. 1996. "[Run-Proof Banking Without Suspension or Deposit Insurance.](#)" Journal of Monetary Economics 38 (October): 377-90.

Ennis, Huberto M., and Todd Keister. 2006. "[Bank Runs and Investment Decisions Revisited](#)". Journal of Monetary Economics 53 (March): 217-32.

Ennis, Huberto M., and Todd Keister. 2008. "[Run Equilibria in a Model of Financial Intermediation](#)". Federal Reserve Bank of New York Staff Report No. 312 (January).

Ennis, Huberto M., and Todd Keister. 2009a. "[Run Equilibria in the Green-Lin Model of Financial Intermediation.](#)" Journal of Economic Theory, 144 (September): 1,1996-2,020.

Ennis, Huberto M., and Todd Keister. 2010. "[Banking Panics and Policy Responses](#)". Journal of Monetary Economics 57 (May): 404-19.

Green, Edward J., and Ping Lin. 2003. "[Implementing Efficient Allocations in a Model of Financial Intermediation](#)". Journal of Economic Theory 109 (March): 1-23.

Nosal, Ed and Niel Wallace. 2009. "[Information Revelation in the Diamond-Dybvig Banking Model](#)". Federal Reserve Bank of Chicago Policy Discussion Paper Series (December).

Postlewaite, Andrew, and Xavier Vives. 1987. "[Bank Runs as an Equilibrium Phenomenon](#)." Journal of Political Economy 95 (June): 485-91.

Wallace, Niel. 1990. "[A Banking Model in which Partial Suspension is Best](#)". Federal Reserve Bank of Minneapolis Quarterly Review 14 (Fall): 11-23.

Some Other Possible Topics

IV. Sunspot Equilibrium and Financial Fragility

V. Lotteries & Sunspots

VI. Continuous-time Macroeconomics

VII. Economic Growth

VIII. Inventions

IX. Learning-by-doing

X. Market Games