

Economics 4905  
**Financial Fragility and the Macroeconomy**  
Cornell University  
Fall 2015  
Uris Hall **262**  
MW 2:55 PM to 4:10 PM

Instructor: Karl Shell  
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Office Hours: Tuesdays 1:30pm to 2:30pm  
Thursdays 2pm to 3pm

Prerequisites: Intermediate Macro or Accelerated Macro  
Comfort with calculus

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

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

### **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**

- 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

### **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
- 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 Economics 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

### **Books:**

Books are optional, but might be good sources for papers and presentations. Electronic versions can be purchased from Kindle.

- 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
- 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, 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.