

Economics 7320, Fall 2018
Cornell University
Monetary Economics II (Half Course)
Syllabus and First Reading List

Professor:

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Meeting Time and Place: The organizational meeting will be on Tuesday, August 28 at 4:30PM in Uris Hall 420. We will attempt to accommodate student schedules in setting permanent meeting time.

Office Hours: M 1:30-2:30 PM, W 1:30-2:30 PM, or by appointment

Course Structure:

- Faculty and student presentations of papers and articles
- Attendance and participation are mandatory
- Ungraded problem sets
- No exams

Some Possible Topics (to be based on student interests):

- Bank Runs
- Financial Fragility
- Excess Volatility
- Sunspots
- Continuous-Time Macro
- Others based on student interests

Reading Lists:

- See next pages
- Articles can be found at Cornell's e-Library or through the links at www.karlshell.com. The reading list at karlshell.com has links that connect to the Cornell Library if you are using a Cornell computer.

Money and Finance Basics:

- [Shell website section on Taxes Denominated in Money](#)
- Kenneth J. Arrow, “[The Role of Securities in the Optimal Allocation of Risk-Bearing](#),” Review of Economic Studies, April 1964, 91-96.
- 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.
- William J. Baumol, “[The Transactions Demand for Cash: An Inventory Theoretic Approach](#),” The Quarterly Journal of Economics 66(4), 1952, 545.

Banks and Bank Runs: Introduction:

- [Shell website section on Financial Fragility](#)
- Douglas W. Diamond & Philip H. Dybvig, “[Bank Runs, Deposit Insurance, and Liquidity](#),” Journal of Political Economy, 111(1), June 1983, 401-419.
- Neil Wallace, “[Another Attempt to Explain an Illiquid Banking System: The Diamond-Dybvig model with Sequential Service Taken Seriously](#),” Fed. Res. Bank of Minneapolis Quarterly Review 12 (Fall 1988) 3-16.
- Neil Wallace, “[A Banking Model in Which Partial Suspension is Best](#),” Fed. Res. Bank of Minneapolis Quarterly Review 14 (Fall 1990) 11-23.
- Edward J. Green & Ping Lin, “[Diamond and Dybvig’s Classic Theory of Financial Intermediation: What’s Missing?](#)”, Fed. Res. Bank of Minneapolis Quarterly Review (Winter 2000) 3-13.
- James Peck & Karl Shell, “[Equilibrium Bank Runs](#),” Journal of Political Economy, 111(1), February 2003, 103-123.
- James D. Peck & Karl Shell, “[Could Making Banks Hold Only Liquid Assets Induce Bank Runs?](#)”, Journal of Monetary Economics 7(4), May 2010).
- Karl Shell & Yu Zhang “[Bank Runs: The Pre-Deposit Game](#)”, Macroeconomic Dynamics, forthcoming.

- Huberto Ennis & Todd Keister, “[On the Fundamental Reasons for Bank Fragility](#)”, Fed. Res. Bank of Richmond Quarterly Review 96(1), 2010, 33-58.
- Huberto Ennis & Todd Keister, “[Run Equilibria in the Green-Lin Model of Financial Intermediation](#)”, Journal of Economic Theory 144(5), 2009, 1996-2020.
- Xavier Freixas & Jean-Charles Rochet, Microeconomics of Banking, 2nd Edition, MIT Press, 2008.
- Franklin Allen and & Douglas Gale, Understanding Financial Crises, Clarendon Lectures in Finance, Oxford, 2009.
- Chao Gu, “[Herding and Bank Runs](#)”, Journal of Economic Theory, 146(1), 2011, 163-188.
- Chao Gu, “[Noisy Sunspots and Bank Runs](#)”, Macroeconomic Dynamics, 15(3), 2011, 398-418.
- Todd Keister, “[Bailouts and Financial Fragility](#)”, Review of Economic Studies, 15(0), 2015, 1-33.

Excess Volatility and Sunspots:

- Robert J. Shiller, “[Do Stock Market Prices Move Too Much to be Justified by Subsequent Changes in Dividends?](#)”, American Economic Review, 71(3), June 1981, 421-436.
- Karl Shell, “[Sunspot Equilibrium](#)”, The New Palgrave: A Dictionary of Economics, 2nd Edition (L. Blume and S. Durlauf, eds.), New York: Palgrave Macmillan, 2008.
- Karl Shell, “[Sunspot Equilibrium](#)”, The New Palgrave: A Dictionary of Economics (J. Eatwell, M. Milgate, and P. Newman, eds.), Vol. 4, New York: Macmillan, 1987, 549-551. Reprinted in The New Palgrave: General Equilibrium (J. Eatwell, M. Milgate, and P. Newman, eds.), New York: Macmillan, 1989, 274-280.
- Karl Shell, “[Monnaie et allocation intertemporelle](#)” [title and abstract in French, text in English] mimeo., Séminaire Roy-Malinvaut, Centre National de la Recherche Scientifique, Paris, November 21, 1977. To be published in Macroeconomic Dynamics as a Vintage Unpublished Paper.
- David Cass & Karl Shell, “[Do Sunspot Matter?](#)”, Journal of Political Economy, Vol. 91(2), April 1983, 193-227. Reprinted in General Equilibrium Theory (G.

Debreu, ed.), The International Library of Critical Writings in Economics 67, London: Edgar Elgar Publishing, 1996, Vol. I, Chapter 17, 295-329.

- Costas Azariadis, “[Self-Fulfilling Prophecies](#),” Journal of Economic Theory, 25(3), December 1981, 380-396.
- Karl Shell & Randall Wright, “[Indivisibilities, Lotteries and Sunspot Equilibria](#)”, Journal of Economic Theory, Vol. 3(1), January 1993, 1-17.
- James D. Peck & Karl Shell, “[Market Uncertainty: Correlated and Sunspot Equilibria in Imperfectly Competitive Economies](#)”, The Review of Economic Studies, Vol. 58(5), October 1991, 1011-1029.

Continuous-Time Macro:

- David Cass, “[Optimal Growth in an Aggregative Model of Capital Accumulation](#)”, The Review of Economic Studies, Vol. 32, No. 3 (July, 1965), 233-240.
- David Cass, “[Optimal Growth in an Aggregative Model of Capital Accumulation: A Turnpike Theorem](#)”, Econometrica, Vol. 34, No. 4 (October 1966) 833-850.
- Karl Shell, “[Application of Pontriagin’s Maximum Principle to Economics](#)”, Varenna Lectures. 1969.
- Karl Shell, “[Toward a Theory of Inventive Activity and Capital Accumulation](#)”, American Economic Review, Vol. 56, No. 1/2 (March 1, 1966), 62-88.

Other Possible Topics:

- Market games (general equilibrium with imperfect competition)
- Lottery equilibrium
- Coordination failure
- Time inconsistency