

Economics 861.01
Monetary Economics I
Fall 2000

Tuesday and Thursday, 9:00-10:15 am
McGuinn Hall, Room 315

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Course Description

This course will survey recent theoretical work in monetary economics. After a brief introduction to some stylized facts associated with money and the business cycle, our attention will focus on three questions of principal interest to monetary theorists:

- (1) Why is intrinsically useless paper currency valued in equilibrium?
- (2) What features of the economic environment account for the observed relationships between policy-induced movements in the money supply and fluctuations in output, prices, and interest rates?
- (3) What special problems do governments face when they attempt to use monetary policy to influence the real economy?

Course Materials

Xerox copies of my lecture notes are available at the Boston College Bookstore; these will serve as the main text for the course. A book that you may also find helpful is:

Sargent, Thomas J. *Dynamic Macroeconomic Theory*. Harvard University Press, 1987.

Other references are listed in the course outline, below.

Course Requirements and Grading

Students wishing to receive a grade for this course should write a term paper on some topic related to monetary economics. Anything ranging from a literature review to original research is

acceptable.

If you decide to write a term paper, please hand in a brief, written description of your topic on or before Thursday, October 19. Please hand in the final draft of the paper on or before Thursday, December 7.

The xerox package of notes also contains a series of problem sets and solutions. These problem sets are designed to help you review the material presented in class and to give you a feel for the types of questions that might appear on the field exam in monetary economics. They will not be collected or graded.

Course Outline

Introduction

1. Money and the Business Cycle: Stylized Facts

Friedman, Milton. "The Role of Monetary Policy." *American Economic Review* 58 (March 1968): 1-17.

Cooley, Thomas F. and Gary D. Hansen. "Money and the Business Cycle." In Thomas F. Cooley, ed. *Frontiers of Business Cycle Research*. Princeton: Princeton University Press, 1995.

Models of Monetary Economies

2. Money in the Utility Function

Sargent, Chapter 4.

Friedman, Milton. "The Optimum Quantity of Money." In *The Optimum Quantity of Money and Other Essays*. Chicago: Aldine Publishing Company, 1969.

3. Cash-in-Advance

Sargent, Chapter 5.

4. Overlapping Generations

Sargent, Chapter 7.

5. Spatial Separation

Sargent, Chapter 6.

Townsend, Robert M. "Models of Money With Spatially Separated Agents." In John H. Kareken and Neil Wallace, eds. *Models of Monetary Economies*. Minneapolis: Federal Reserve Bank of Minneapolis, 1980.

6. Search

Kiyotaki, Nobuhiro and Randall Wright. "A Search-Theoretic Approach to Monetary Economics." *American Economic Review* 83 (March 1993): 63-77.

Models of Money and the Business Cycle

7. Models Without Additional Frictions

Cooley, Thomas F. and Gary D. Hansen. "Money and the Business Cycle." In Thomas F. Cooley, ed. *Frontiers of Business Cycle Research*. Princeton: Princeton University Press, 1995.

8. Imperfect Information

Lucas, Robert E., Jr. "Expectations and the Neutrality of Money." *Journal of Economic Theory* 4 (April 1972): 103-124.

Cooley, Thomas F. and Gary D. Hansen. "Unanticipated Money Growth and the Business Cycle Reconsidered." *Journal of Money, Credit, and Banking* 29 (November 1997, Part 2): 624-648.

9. Financial Market Imperfections

Lucas, Robert E., Jr. "Liquidity and Interest Rates." *Journal of Economic Theory* 50 (April 1990): 237-264.

Chari, V.V., Lawrence J. Christiano, and Martin Eichenbaum. "Inside Money, Outside Money, and Short-Term Interest Rates." *Journal of Money, Credit, and Banking* 27 (November 1995, Part 2): 1354-1386.

10. Sticky Prices

Ireland, Peter N. "The Role of Countercyclical Monetary Policy." *Journal of Political Economy* 104 (August 1996): 704-723.

Hairault, Jean-Olivier and Franck Portier. "Money, New-Keynesian Macroeconomics and the Business Cycle." *European Economic Review* 37 (December 1993): 1533-1568.

Key Issues in Monetary Policymaking

11. Time Consistency

Barro, Robert J. and David B. Gordon. "A Positive Theory of Monetary Policy in a Natural Rate Model." *Journal of Political Economy* 91 (August 1983): 589-610.

12. Reputation

Ireland, Peter N. "Sustainable Monetary Policies." *Journal of Economic Dynamics and Control* 22 (November 1997): 87-108.