Boston College
Department of Economics
Monetary Economics I: EC861
(September 1996)

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This is a course in empirical macroeconomics with special focus on the role of money in the economy. After looking at models for the demand for adn supply of money, we lood at different paradigms of the monetary transmission mechanism. We then look at attemps to identify this mechanism from the data. The course will be based on the relevant articles in the literature as cited in this outline. There is no required textbook, but when in doubt look up

Blanchard, O.J. and Fischer, S. (1990), *Lectures of Macroeconomics,* M.I.T. Press.

McCallum,B.T. (1989), *Monetary Economics: Theory and Policy.* Macmillan Publishing Company, New York.

Mishkin, F. (1992), *The Economics of Money, Banking, and Financial Markets,* Third edn, Harper Collins Publishers, New York.

1 Evaluation

Problem Sets (one per month)	30%
Mid Term	30%
Take Home Exam (assigned Nov. 26 due Dec. 16)	40%

1 The Microfoundations of Money

Mishkin (1992) Chapters 23-24.

Baumol, W.J. (1952), The Transactions Demand For Cash: An Inventory Theoretic Approach, *Quarterly Journal Of Economics* **66,**545-556.

Diamond, P. National Debt In a Neoclassical Economy, *American Economic Review* **55:5**, 1126-50.

Frankel, J. and Jovanovic, B. (1980), On Transactions and Precautionary Demand for Money, *Quarterly Journal of Economics* **95,** 25-43.

Friedman, M. (1956), The Qauntity Theory of Money: A Reinstatement, *in* M. Friedman (ed.), *Studies in the Quantity Theory of Money,* University of Chicago Press.

Goldfeld, S.M. and Sichel, D. (1990), The Demand For Money, *in* B. Friedman and F. Hahn (eds). *Handbook of Monetary Economics,* North Holland.

Gordan, R.J. (1984), The Short Run Demand For Money a Reconsideration, *Journal of Money Credit adn Banking.*

Gray, M. and Parkin, J. M. (1972). Portfolio Diversificaiton as Optimal Precautionary behavoir, *in* M. Morshima (ed.), *Theory of Demand, Real and Monetary.* Clarendon.

Hendry, D. F. and Ecrisson, N. (1991), An Econometric analysis of U.K. Money Demand in *Monetary trends in the United States and the United Kingdom* by Milton Friedman adn Anna J. Schwartz, *American Economic Review* **81,** 8-38

Judd, J.P. and Scadding, J.L. (1982), The Search For a Stable Money Demand Function, *Journal of Economic Literature.*

Kiyotaki, N. and Wright, R. (1989), On Money as a Medium of Exchange, *Journal of Political Economy* **97,** 927-954.

Miller, M.H. and Orr, D. (1996), A Model Demand for Money By Firms, *Quarterly Journal of Economics.*

Sidrauski, M. (1967), Rational Choice and Patterns of Growth In a Monetary Economy. *American Economic Review papers and Proceedings* pp. 534-44.

Tobin, J. (1956), The Interest Elasticity of Transactions Demand for Cash, *Review of Economics and Stattistics.*

Tobin, J. (1958). Liquidity Preferences as Behavior Towards Risk. *Review of Economic Studies* **25,** 56-86.

2 The Money View and the Role of Monetary Policy

Ball, L. and Romer, D. (1990), Real Rigidities and the Non-Neutrality of Money, *Review of Economic Studies* **57,** 182-203.

Barro, R. (1976), Rational Expectations and The Role of Monetary Policy, *Journal of Monetary Economics* pp. 1-32.

Blanchard, O. and Kiyotaki, N. (1987), Monopolistic Competition and the Effects of Aggregate Demand. *American Economic Review* **77,**647-66.

Fischer, S. (1979), Anticipations and The Non-neutrality of Money. *Journal of Political Economy* **47:6,** 1433-1440

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

Kydland, F. and Prescott, E. (1977), Rules rather than Discretion: The Inconsistency fo Optimal Rules, *Journal of Political Economy* **85,** 473-91.

Lucas, R.E. (1973), Some International Evidence on Output Inflation Tradeoffs. *American Economic Review* **63,** 326-34.

Mankiw, G. (1986), The Allocation of Credit and Financial Collapse. *Quarterly Journal of Economics* **101,** 455-70.

Poole, W. (1970), Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model, *Quarterly Journal of Economics* **84,** 197-216.

Sargent, T. (1971), A Note on the Accerlerationist Controversy, *Journal of Moneu, Credit, and Banking.*

Sargent, T. and N,W. (1975), Rational Expectations. The Optimal Monetary Instruments and The Optimal Money Supply Rule, *Journal of Political Economy* **83,** 241-54.

Taylor, J.B. (1979), Staggered Wage Setting In a Macro Model, *American Economic Review* **69,** 108-13.

3 The Credit View and the Role of Banks

Bernanke, B. (1983), Nonmonetary Effects of the Financial Crisis in the Propagtion of the Great Depression, *American Economic Review* **73,** 257-276.

Bernanke, B. and Blinder, A. (1988), Credit, Money, and Aggregate Demand, *American Economic Review* **May,** 435-439.

Bernanke, B. and Blinder, A. (1992), The Federal Funds Rate and the Channels of Monetary Transmission, *American Economic Review* **82,** 901-22.

Bernanke, B. and Gertler, M. (1989), Agency Costs, Collateral, Business Fluctuations, *American Economic Review* **79,** 14-31.

Bernanke, B. and Gertler, M. (1990), Financial Fragility and Economic Performance, *Quarterly Journal of Economics* **2,** 87-114.

Blinder, A. and Stiglitz, J. (1983), Money, Credit Constraints and Economic Activity, *American Economic Review* **73,** 297-302.

Brimmer, A. (1989), Central Banking and Systematic Risks in Capital Markets, *Journal of Economic Perspectived* **Spring,** 3-16.

Calomiris, C. and Kahn, C. (1991), The Role of Demandable Debt in Structering Optimal Banking Arrangements, *American Economic Review* **81:3** 497-513.

Diamond, D. and Dybvig, P. (1983), Bank Runs, Deposit Insurance, and Liquidity, *Journal of Political Economy* **June,** 401-19.

Fama, E. (1980), Banking in the Theory of Finance, *Journal of Monetary Economics* **6,** 39-57.

Fama, E. (1985), What's Different About Banks, *Journal of Monetary Economics* pp. 29-39.

Fazzari, S., Hubbard, G., and Peterson, B. (1988), Financing Constraints and Corporate Investment, *Brookings Paper on Eonomic Activity* **1,** 141-95.

Gertler, M. (1988), Financial Structure and Aggregate Activity, *Journal of Money, Credit, and Banking* **August,** 559-88.

Greenwald, B., Stiglitz, J., and Weiss, A. (1984), Information Imperfections in the Capital Markets and Macroeconomic Fluctuations, *American Economic Review* **74:2,** 194-200.

Kashyap, A., Stein, J., and Wilcox, D. (1993), Monetary Policy and Credit Conditions: Evidence from the Composition of External Finance, *American Economic Reciew* **83,** 78-98.

4 The Role of Money in Real Business Cycle Models

Christiano, L. (1991), Modeling the Liquidity Effect of a Money Shock, *Federal Reserve Bank of Minneapolis Quarterly Review* **Winter,** 3-34.

King, R.G. (1994), Money and Business Cycles, *Journal of Monetaru Economics.*

King, R.G. and Plosser, C. (1984), Money, Credit, and Prices in a Real Business Cycle, *Americal Economic Review* **June,** 364-380.

McCallum, B.T. (1989), Real Business Cucle Models, *in* R.J. Barro (ed.), *Modern Business Cycle Theory,* Harvard University Press.

5 Empirical Macroeconomics

Blanchard, O. (1990), Why Does Money Affect Output? A Survey., *in* F. Friedman and F. Hahn (eds), *Handbook of Monetary Economics,* Vol. 2, North Holland.

Cochrane, J.H. (1994b), Shocks, NBER Working Paper No. 4689.

Frierdman, B. and Kuttner, K. (1992), Why Does the Paper Bill Spread Predict Real economic Activity, *in* J. Stock and M Watson (eds), *New Research in Business Cylcles, Theory and Practice of Econometrics,* Wiley, New York.

Friedman, B. and Kuttner, K. (1993), Another Look at the Evidence on Money-Income Casuality, *Journal of Econometrics* **57,** 189-203.

Gordan, D,B. and Leeper, E.M. (1994), The Dynamic Impacts of Monetary Policy: An Exercise in Tenative Identification, *Journal of Political Economy* pp. 1228-1247.

King, R.G. and Watson, M.W. (1994), The Post-War U.S. Phillips Curve: A Revisionist Econometric History, *Carnegie-Rochester Conference Series on Public Policy* **41**, 157-219.

King, R. G., Plosser, C., Stock, J. and Watson, M. (1991), Stochastic Trends and Economic Fluctuations, *Americal Economic Review* **81:4,** 819-40.

Leeper, E.M. and Gordon, D.B. (1992), In Search of Liquidity Effect, *Journal of Monetary Economics* **29,** 341-69.

Romer, D. and Romer, C. (1989), Does Moetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz, *NBER Macroeconomics Annual,* Vol 4, M.I.T. Press, pp. 121-69.

Romer, D. and Romer, C. (1990), New Evidence on the Monetary Transmission Mechanism, *Brookings Papers on Economic Activity* 1, 149-98.

Sims,C. (1992), Interpreting the Macroeconomic Time Series Facts: The Effects of Monetary Policy, *European Economic Review* pp. 975-1000.

Sims, C.A. and Zha, T. (1996), Error Bands for Impulse Responses, *Reserve Bank of Atlanta Working Paper.*

Sims, C.A. and Zha, T. (1995), Does Monetary Policy Generate Recessions? Using Less Aggregated Price Data to Identify Monetary Policy, unpublished manuscript, Yale University.

Stock, J.H. and Watson, M. (1989), New Indexes of Coincident and Leading Economic Indications, *in* O.J. Blanchard and S. Fischer (eds), *NBER Macroeconomics Annual 1989,* M.I.T. Press, Cambridge.