

BOSTON COLLEGE  
Department of Economics

EC 862, Module A  
Monetary Economics II  
Spring 1997

Joe Peek  
Off. Hrs: TTh 2:30-4:30 pm  
and by appointment

OVERVIEW OF COURSE REQUIREMENTS

This course is composed of two modules, with the second module taught by Chris Canavan. While the two modules will be self contained, you will be required to complete a research paper during the semester that will span the two modules. You are welcome to consult with either of us at any time during the semester for advice on your research paper. Your course grade will be determined as a weighted average of your grades for each of the two modules (25% each) and for the research paper (50%).

The first module ends on February 27. Your grade for this module will be based on a final exam over the first module material. In addition, you will have the following deadlines associated with the research paper.

Tuesday, January 21	Initial paper topic
Tuesday, January 28	Research plan
Tuesday, February 11	First progress report
Thursday, February 27	Second progress report

OUTLINE

I. Introduction

- A. Recent Puzzles
- B. Possible paper topics
- C. Overview

Mark Gertler, "Financial Structure and Aggregate Economic Activity: An Overview," Journal of Money, Credit and Banking, August 1988, Part 2, 559-88.

II. Monetary Policy Transmission and Credit Rationing

Ben S. Bernanke and Alan S. Blinder, "Credit, Money, and Aggregate Demand," American Economic Review, May 1988, 435-39.

Anil K. Kashyap and Jeremy C. Stein, "Monetary Policy and Bank Lending," in N. Gregory Mankiw, ed., Monetary Policy, University of Chicago Press, 1994, 221-61.

R. Glenn Hubbard, "Is There a 'Credit Channel' for Monetary Policy?" FRB St. Louis Review, May/June 1995, 63-77.

Stephen G. Cecchetti, "Distinguishing Theories of the Monetary Transmission Mechanism," FRB St. Louis Review, May/June 1995, 83-97.

Charles P. Himmelberg and Donald P. Morgan, "Is Bank Lending Special?" in Joe Peek and Eric S. Rosengren, eds., Is Bank Lending Important for the Transmission of Monetary Policy?, FRB Boston Conference Series No. 39, 1995, 15-36.

- Mitchell A. Petersen and Raghuram G. Rajan, "The Benefits of Lending Relationships: Evidence From Small Business Data," Journal of Finance, March 1994, 3-38.
- Michael S. Gibson, "Can Bank Health Affect Investment? Evidence From Japan," Journal of Business, Vol. 68, No. 3, 1995, 281-308.
- Christina D. Romer and David H. Romer, "New Evidence on the Monetary Transmission Mechanism," Brookings Papers on Economic Activity, Vol. 1, 1990, 149-213.
- Ben S. Bernanke and Alan S. Blinder, "The Federal Funds Rate and the Channels of Monetary Transmission," American Economic Review, September 1992, 901-21.
- Donald P. Morgan, "Bank Loan Commitments and the Lending Channel of Monetary Policy," mimeo, FRB-Kansas City, July 1993.
- Fabio Schiantarelli, "Financial Constraints and Investment: A Critical Review of Methodological Issues and International Evidence" in Joe Peek and Eric S. Rosengren, eds., Is Bank Lending Important for the Transmission of Monetary Policy?, FRB Boston Conference Series No. 39, 1995, 177-214.
- Mark Gertler and Simon Gilchrist, "Monetary Policy, Business Cycles and the Behavior of Small Manufacturing Firms," The Quarterly Journal of Economics, May 1994, 310-39.
- Anil Kashyap, Jeremy Stein, and David Wilcox, "Monetary Policy and Credit Conditions: Evidence from the Composition of External Finance," American Economic Review, March 1993.
- Stephen D. Oliner and Glenn D. Rudebusch, "Monetary Policy and Credit Conditions: Evidence from the Composition of External Finance: Comment," American Economic Review, March 1996, 300-309.
- Stephen D. Oliner and Glenn D. Rudebusch, "Is There a Bank Lending Channel for Monetary Policy?," FRB San Francisco Economic Review, No. 2, 1995, 3-20.
- Stephen D. Oliner and Glenn D. Rudebusch, "Is There a Broad Credit Channel for Monetary Policy?," FRB San Francisco Economic Review, No. 1, 1996, 3-13.
- Joe Peek and Eric Rosengren, "Banks and the Availability of Small Business Loans," FRB Boston Working Paper 95-1, January 1995.
- Joe Peek and Eric Rosengren, "The International Transmission of Financial Shocks: The Case of Japan," American Economic Review, forthcoming.
- Allen N. Berger and Gregory F. Udell, "Did Risk-Based Capital Allocate Bank Credit and Cause a 'Credit Crunch' in the United States?" Journal of Money, Credit, and Banking, August, Part 2, 1994, 585-628.
- Christina D. Romer and David H. Romer, "Credit Channel or Credit Actions? An Interpretation of the Postwar Transmission Mechanism," in Changing Capital Markets: Implications for Monetary Policy, the Federal Reserve Bank of Kansas City, 1993, 71-116.
- Ben S. Bernanke, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," American Economic Review, June, 1983, 257-76.
- Joe Peek and Eric S. Rosengren, "Bank Lending and the Transmission of Monetary Policy," in Joe Peek and Eric S. Rosengren, eds., Is Bank Lending Important for the Transmission of Monetary Policy?, FRB Boston Conference Series No. 39, 1995, 47-68.

### III. Measuring Monetary Policy

- Christina Romer and David Romer, "Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz," in O. Blanchard and S. Fischer, eds., NBER Macroeconomics Annual, Cambridge, MA: MIT Press, 1989, 121-69.
- Ben S. Bernanke, "On the Predictive Power of Interest Rates and Interest Rate Spreads," New England Economic Review, Nov./Dec. 1990, 51-68.
- Benjamin M. Friedman and Kenneth N. Kuttner, "Why Does the Paper-Bill Spread Predict Real Economic Activity?," in James H. Stock and Mark W. Watson, eds., New Research on Business Cycle Indicators and Forecasting, Chicago: University of Chicago Press, forthcoming.
- Benjamin M. Friedman and Kenneth N. Kuttner, "Money, Income, Prices, and Interest Rates," American Economic Review, June 1992, 472-92.
- Ben S. Bernanke and Ilian Mihov, "Measuring Monetary Policy," manuscript, revised May 1995.

### IV. Central Banking

#### A. Politics and the Fed

- Susan Belden, "Policy Preferences of FOMC Members as Revealed by Dissenting Votes," Journal of Money, Credit, and Banking, November 1989, 432-41.
- Henry Chappell, Thomas Havrilesky and Rob McGregor, "Partisan Monetary Policies: Presidential Impact Through the Power of Appointment," Quarterly Journal of Economics, February 1993, 185-218.
- Geoffrey M. B. Tootell, "Appointment Procedures and FOMC Voting Behavior," Southern Economic Journal, July 1996, 191-204.
- Geoffrey M. B. Tootell, "Reserve Banks, the Discount Rate Recommendation, and FOMC Policy," FRB Boston Working Paper No. 96-11.
- Geoffrey M. B. Tootell, "Whose Monetary Policy Is It Anyway?" manuscript, FRB-Boston, 1996.
- Carl Walsh, "Public Preferences and Inflation," FRBSF Weekly Letter, August 30, 1991.

#### B. Implementing Monetary Policy

- Carl E. Walsh, "A Primer on Monetary Policy Part I: Goals and Instruments," FRBSF Weekly Letter, August 5, 1994.
- Carl E. Walsh, "A Primer on Monetary Policy Part II: Targets and Indicators," FRBSF Weekly Letter, August 19, 1994.
- Benjamin M. Friedman, "The Role of Judgment and Discretion in the Conduct of Monetary Policy: Consequences of Changing Financial Markets," in Changing Capital Markets: Implications for Monetary Policy, the Federal Reserve Bank of Kansas City, 1993, 151-96.
- Brian Motley and John P. Judd, "An Alternative Strategy for Monetary Policy," FRBSF Weekly Letter, January 1, 1993.
- Dean Croushore and Tom Stark, "Evaluating McCallum's Rule for Monetary Policy," FRB-Philadelphia Business Review, January/February 1995, 3-14.
- Daniel L. Thornton, "The Costs and Benefits of Price Stability: An Assessment of Howitt's Rule," FRB-St. Louis Review, March/April 1996, 23-38.
- John P. Judd and Bharat Trehan, "Has the Fed Gotten Tougher on Inflation?" FRBSF Weekly Letter, March 31, 1995.

Bharat Trehan, "The Credibility of Inflation Targets," FRBSF Weekly Letter, January 6, 1995.

John P. Judd, "Inflation Goals and Credibility," FRBSF Weekly Letter, May 12, 1995.

Michael Hutchinson, "Central Bank Credibility and Disinflation in New Zealand," FRBSF Weekly Letter, February 10, 1995.

Malcolm Edey, "Costs and Benefits of Moving From Low Inflation to Price Stability," OECD Economic Studies, No. 23, Winter 1994, 109-30.

Alvin L. Marty and Daniel L. Thornton, "Is There a Case for 'Moderate' Inflation?" FRB-St. Louis Review, July/August 1995, 27-37.

Mark S. Sniderman, "Inflation Targets: The Next Step for Monetary Policy," FRB-Cleveland Economic Commentary, August 1, 1996.

S. Rao Aiyagari, "Deflating the Case for Zero Inflation," FRB of Minneapolis Quarterly Review, Summer 1990, 2-11.

### C. Trends and Issues in Banking

John H. Boyd and Mark Gertler, "Are Banks Dead? Or Are the Reports Greatly Exaggerated?" FRB of Minneapolis Quarterly Review, Summer 1994, 2-23.

Mark E. Levonian, "Why Banking Isn't Declining," FRBSF Weekly Letter, January 20, 1995.

Simon Kwan, "The Economics of Merging Commercial and Investment Banking," FRBSF Weekly Letter, May 19, 1995.

Joao Cabral dos Santos, "Glass-Steagall and the Regulatory Dialectic," FRB-Cleveland Economic Commentary, February 15, 1996.

Elizabeth Laderman, "The Rhyme and Reason of Bank Mergers," FRBSF Weekly Letter, November 17, 1995.

Jerry L. Jordan, "The Future of Banking Supervision," FRB-Cleveland Economic Commentary, April 1, 1996.