

Economics 213

Syllabus

Requirements: (1) A term paper, topic to be approved by one of the instructing faculty. May include a literature survey or a research undertaking; and (2) class presentation of an item from the syllabus, choice to be approved by one of the instructing faculty.

Weeks 1 – 5

I. Money and the Theory of Value (lecture 1)

Hicks, J. R. “A Suggestion for Simplifying the Theory of Money” *Economica*, v. II, n. 5, pp. 1 – 19. Reprinted in Hicks, *Critical Essays in Monetary Theory*, Oxford University Press, 1967, and in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Tobin, J. “Money, Capital, and other Stores of Value”, *American Economic Review*, v. LI, n. 2, pp. 26 – 37. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Tobin, J. “Discussion” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

Menger, K. “On the Origin of Money” , *Economic Journal*, n. 2, pp. 239 – 255, 1892. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Cass and Shell, “In Defense of a Basic Approach” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

Jevons, W. S., *Money and the Mechanism of Exchange*, New York: D. Appleton, 1893, chaps. I, II, III. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Radford, R. A., “The Economic Organisation of a P.O.W. Camp” *Economica*, New Series, Vol. 12, No. 48. (Nov., 1945), pp. 189-201

Ostroy and Starr, “The Transactions Role of Money,” in *Handbook of Monetary Economics*. B. Friedman and F.H. Hahn, eds., North Holland, 1990.

Clower, R. “The Anatomy of Monetary Theory” *American Economic Review*, v. 67, n.1, Feb. 1977, pp. 206 – 212.

Smith, A. “Of the Origin and Use of Money,” *Wealth of Nations*, book I, chapter IV.

II. An elementary trading post model (1 lecture)

Starr, “Mengerian Saleableness and Commodity Money in a Walrasian Trading Post Example,” *Economics Letters*, in press.

<http://www.econ.ucsd.edu/%7Erstarr/RevisiontoEconLetters100207.pdf>

III. A world without money, the Arrow-Debreu model (two lectures)

Starr, *General Equilibrium Theory: An Introduction*, 1997, Cambridge University Press, chap 16, 17, 12, 15.

Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989., chaps. 1, 24, 25.

Hahn, F. H., *Money and Inflation*, (1982), Oxford: Basil Blackwell. Chap. 1.

IV. Individual Transactions (1 lecture)

Jones, R. A. “The origin and development of media of exchange,” *Journal of Political Economy*, 1976, v. 84, pp. 757 – 775.

Ostroy, J. M., and R Starr, “The Transactions Role of Money,” chapter 1 in, F. Hahn and B. Friedman, eds., *Handbook of Monetary Economics*, 1990, North Holland.

V. Temporary equilibrium of a Monetary Economy (1 lecture)

Hahn, “On Some Problems of Proving the Existence of Equilibrium in a Monetary Economy” in *The Theory of Interest Rates*, F. H. Hahn and F. P. R. Brechling, eds., London: Macmillan, 1966. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Grandmont, J. M. “On the short run equilibrium in a monetary economy” in J. H. Dreze, ed., *Allocation under uncertainty: Equilibrium and Optimality*, New York, John Wiley, pp. 213 - 228. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Goldberg, D. "Famous Myths of 'Fiat Money' " *Journal of Money, Credit, and Banking* 37(5), October (2005), 957-967]

VI. Equilibrium with Transaction Costs (2 lectures)

Foley, "Equilibrium with Costly Marketing" *Journal of Economic Theory*, 1970, v. 2, n. 3, pp 276 – 291. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Hahn, "Equilibrium with Transaction Costs" *Econometrica*, 1971, v. 39, n. 3, pp. 417 – 439. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Hahn, "On transaction costs, inessential sequence economies, and money", *Review of Economic Studies*, v. 40, 1973, pp. 449 –461.

Starrett, "Inefficiency and the demand for money in a sequence economy" *Review of Economic Studies*, v. XL, n. 4, 1973, pp. 437 –448. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Starr, R., "Money in a Sequence Economy: A Correction," *Review of Economic Studies*, v. XLV, n. 2, p. 391. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Kurz, M., "Equilibrium in a Finite Sequence of Markets with Transaction Cost," *Econometrica*, 1974, v. 42, pp. 1 – 20. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

VII. The Money Stock in a General Equilibrium Model (1 lecture)

Tobin, J. "The interest elasticity of the Transactions Demand for Cash," *Review of Economics and Statistics*, 1956, v. 38, pp. 241 -47.

Heller, W. P. and R. Starr "Equilibrium with Nonconvex Transactions Costs: Monetary and Nonmonetary Economies," *Review of Economic Studies*, XLIII (2), June 1976. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

VIII. A Monetary Trading Post Economy with Scale Economies (2 lectures)

Shapley and Shubik "Trade Using one Commodity as Means of Payment," *Journal of Political Economy*, 1977, v. 85, no.5 (October), pp. 937-968.

Starr, R., "Existence and uniqueness of 'money' in general equilibrium: natural monopoly in the most liquid asset," in Assets, Beliefs, and Equilibria in Economic Dynamics, edited by C. D. Aliprantis, K. J. Arrow, P. Hammond, F. Kubler, H.-M. Wu, and N. C. Yannelis; Heidelberg: BertelsmanSpringer. 2003.

Alchian, A., "Why Money?" *Journal of Money Credit and Banking*, 1977, v. 9, pp. 131 – 140.

Smith, A., *Wealth of Nations*, 1776, vol. I, book II, chap. 2.

Hahn, F.H., "Fundamentals," *Revista Internazionale di Scienze Sociali*, CV, pp. 123–138, (1997).

Newhouse, H. (2005), "The Emergence of a Medium of Exchange" unpublished.

Weeks 6-10

Asterisks indicate the papers a subset of which will be presented in the lectures.

I. Introduction (1 lecture)

Hicks, J. R. "A Suggestion for Simplifying the Theory of Money". *Economica* (1935).

Wallace, N. "A Suggestion for Oversimplifying the Theory of Money" *Economic Journal* (1998).

*Wallace, N. "Whither Monetary Economics?" *International Economic Review* (2001).

II. Generation 1 - indivisible goods, indivisible money (1 lecture)

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

*Kiyotaki, N., and R. Wright, "A Search-Theoretic Approach to Monetary Economics," *American Economic Review*, March (1993), 83, (1), 63-77.

Ritter, J. "The Transition from Barter to Money," *American Economic Review*, March (1995), 134-149.

Berentsen, A., M. Molico, R. Wright "Indivisibilities, Lotteries, and Monetary Exchange." *Journal of Economic Theory* (2002).

Lotz, S., A. Shevchenko, C. Waller "Heterogeneity and Lotteries in Monetary Search Models" *Journal of Money, Credit and Banking* (2007)

Shevchenko, A. and R. Wright "A Simple Search Model of Money with Heterogenous Agents and Partial Acceptability." *Economic Theory* (2004).

Berentsen, A. "On the Distribution of Money Holdings in a Random-Matching Model ", *International Economic Review* (2002)

III. Generation 2 - divisible goods, indivisible money (1 lecture)

*Trejos, A., and R. Wright, "Search, Bargaining, Money and Prices," *Journal of Political Economy*, March (1995), 103, (1), 118-40.

Shi, S., "Money and Prices: A Model of Search and Bargaining," *Journal of Economic Theory* (1995).

Berentsen, A. and G. Rocheteau, "On the Efficiency of Monetary Exchange: Why the Divisibility of Money Matters." *Journal of Monetary Economics*, (2002).

Kocherlakota, N. "Money is Memory", *Journal of Economic Theory*, (1998).

Camera, G. and D. Corbae, "Money and Prices," *International Economic Review*, (1999).

Berentsen, A., G. Camera, C. Waller, "The Distribution of Money and Prices an Equilibrium with Lotteries" *Economic Theory* (2004).

Zhu, T. "Existence of a Monetary Steady State in a Matching Model: Indivisible Money," *Journal of Economic Theory* (2003).

IV. Generation 3: divisible goods, divisible money (3-4 lectures)

*Shi, S. "A Divisible Search Model of Fiat Money," *Econometrica*, (1997).

*Lagos, R. and R. Wright, "A New Framework for Monetary Theory and Policy Analysis." *Journal of Political Economy*, (2005).

Aruoba, S., G. Rocheteau and C. Waller, "Bargaining and the Value of Money." *Journal of Monetary Economics* (2007).

*Molico, M., "The Distribution of Money and Prices in Search Equilibrium,"
International Economic Review (2006).

Chui, J. and M. Molico "Uncertainty, Inflation, and Welfare." Unpublished working paper.

Berentsen, A. "On the Private Provision of Fiat Currency ", *European Economic Review* (2006).

*Rocheteau, G. and R. Wright, "Money in Search Equilibrium, in Competitive Equilibrium and Competitive Search Equilibrium." *Econometrica* (2005).

Aruoba, S. and R. Wright, "Search, Money and Capital: A Neoclassical Dichotomy,"
Journal of Money, Credit and Banking (2003).

Waller, C. "Comment on Aruoba and Wright" *Journal of Money, Credit and Banking* (2003).

*Aruoba, S., C. Waller and R. Wright, "Money and Capital." Unpublished working paper (2007).

Berentsen, A. and C. Waller "Optimal Stabilization Policy with Endogenous Firm Entry." Unpublished working paper.

Andolfatto, D. "Incentives and the Limits of Deflationary Policy." Unpublished working paper.

V. Some Applications (3-4 lectures)

i) Fiscal and monetary policy

*Aruoba, S.B. and S. Chugh "Optimal Fiscal and Monetary Policy when Money is Essential." Unpublished working paper (2007).

Gomis Porqueras, P. and A. Peralta-Alva. "Optimal Monetary and Fiscal Policies in a Search Theoretic Model of Monetary Exchange." Unpublished working paper (2007)

*Waller, C. "Dynamic Taxation, Private Information and Money." Unpublished working paper (2007).

ii) Financial intermediation and co-existence of assets

Cavalcanti, R. and N. Wallace, "Inside and outside money as alternative media of exchange." *Journal of Money, Credit, and Banking* (1999)

Cavalcanti, R. and N. Wallace, "A model of private bank-note issue." *Review of Economic Dynamics* (1999).

Cavalcanti, R. A. Erosa, T. Temzelides, "Private money and reserve management in a random-matching model." *Journal of Political Economy* (1999).

*Berentsen, A. G. Camera and C. Waller "Money, Credit and Banking." *Journal of Economic Theory* (2007).

*He, H., L. Huang and R. Wright. "Money, Banking and Monetary Policy." Unpublished working paper (2006).

Telyukova, I. and R. Wright. "A Model of Money and Credit, with Application to the Credit Card Debt Puzzle." *Review of Economic Studies* (2008).

Craig, B. and C. Waller, "'Currency Portfolios and Currency Exchange in a Search Economy" *Journal of Monetary Economics* (2004).

Camera, G., B. Craig and C. Waller, "'Currency Competition in a Fundamental Model of Money" *Journal of International Economics* (2004).

Aiyagari, S.R., N. Wallace and R. Wright, "Coexistence of Money and Interest-bearing Securities," *Journal of Monetary Economics* (1996).

Shi, S. and A. Head, "A Fundamental Theory of Exchange Rates and Direct Currency Trades," *Journal of Monetary Economics* ().

Lotz, S. and G. Rocheteau, "Launching a New Currency in a Simple Random Matching Model." *Journal of Money, Credit and Banking* (2004).

*Lagos, R. and G. Rocheteau. "Money and Capital as Competing Media of Exchange" forthcoming in *Journal of Economic Theory*.

iii) Information issues

*Williamson, S. and R. Wright, "Barter and Monetary Exchange Under Private Information," *American Economic Review* (1994) 104-123.

Berentsen, A. and G. Rocheteau, "Money and Information." *Review of Economic Studies* (2004).

vi) Asset pricing and liquidity

Kocherlakota, N. "The Societal Benefits of Illiquid Bonds." *Journal of Economic Theory* (2003) (Note: Not a search model.)

Shi, S. "Efficiency Improvement from Restricting the Liquidity of Nominal Bonds"
Unpublished working paper (2007).

Berentsen, A. and C. Waller. "The Societal Benefits of Outside versus Inside Bonds."
Unpublished working paper (2007).

*Lagos, R. "Asset Prices and Liquidity in an Exchange Economy" Unpublished working
paper (2007).

K. Ravikumar and E. Shao "Search Frictions and Asset Price Volatility." Unpublished
working paper.