

Graduate Monetary Theory

Dr. Christopher J. Waller
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Office: 444 Flanner

Office Hours: By appointment

Email address: cwaller@nd.edu

Web address: <http://www.nd.edu/~cwaller>

Grades: Grades will be based on a midterm exam, a final exam and a paper.

Course Outline: (Subject to Change)

Overview: * denotes required readings.

*Townsend, R. "Models of Money with Spatially Separated Agents" (1980)
(Available from me).

*Wallace, N. (1998) "A Dictum for Monetary Theory", *Federal Reserve Bank of Minneapolis Quarterly Review*, Winter.

I. Search Theoretic Models of Money

A. Generation 1

i) One indivisible good, one unit of indivisible money.

*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).

ii) One indivisible good, integer units of indivisible money.

*Berentsen, A. "Money Inventories in Search Equilibrium", *Journal of Money, Credit and Banking* (2000).

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

B. Generation 2

i) Divisible Goods, 1 unit of indivisible money

*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).

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

ii) Divisible Goods, Multiple Integer Units of Money

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

*Berentsen, A., G. Camera, C. Waller, ""The Distribution of Money and Prices in 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).

C. Generation 3 models: Divisible goods, divisible money

*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.

D. Applications

i) Fiscal and monetary policy

Aruoba, S.B. and S. Chug “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

*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." Unpublished working paper (2006).

ii) Dual currency models

Matsuyama, K., N. Kiyotaki, and A. Matsui. "Towards a Theory of International Currency." *Review of Economic Studies* (1993).

Zhou, R. "Currency Exchange in a Random Search Model," *Review of Economic Studies* (1997).

Shi JET (1995)

Li, Y., and R. Wright. "Government Transaction Policy, Media of Exchange and Prices." *Journal of Economic Theory* (1998)

Trejos, A. and R. Wright, "International Currency." *Advances in Macroeconomics* (2001).

Curtis, Elisabeth and Christopher Waller, "A Search Theoretic Model of Legal and Illegal Currency," *Journal of Monetary Economics*, (2000).

Waller, C. and E. Curtis, "'Currency Restrictions, Government Transaction Policies and Currency Exchange" *Economic Theory* (2001).

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).

iv) Anonymity issues

Corbae, D., T. Temzelides and R. Wright "Directed Matching and Monetary Exchange" *Econometrica* (2003).

Aliprantis, R., G. Camera and D. Puzzelo. "Anonymous Markets and Monetary Trading" forthcoming in *Journal of Monetary Economics*.

Aliprantis, R., G. Camera and D. Puzzelo. "Contagion Equilibria in a Monetary Model forthcoming in *Econometrica*

Aliprantis, R., G. Camera and D. Puzzelo. "Matching and Anonymity" *Economic Theory* (2006).

Aliprantis, R., G. Camera and D. Puzzelo. "A Random Matching Theory" forthcoming in *Games and Economic Behavior*.

v) Price dispersion

Head, A. and A. Kumar "Price Dispersion, Inflation and Welfare." *International Economic Review* (2005).

*Curtis, E. and R. Wright “Price Setting, Price Dispersion and the Value of Money, or The Law of Two Prices.” *Journal of Monetary Economics* (2004).

Galenianos, M. and P. Kircher “A Model of Money with Multilateral Matching.” Unpublished working paper (2007).

vi) Asset pricing and liquidity issues

*Kocherlakota, N. “The Societal Benefits of Illiquid Bonds.” *Journal of Economics 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.

vii) Money and specialization

Camera, G., R. Reed and C. Waller “A Jack of All Trades Or a Master of None? Specialization, Trade and Money.” *International Economic Review* (2003).

Shi, S. “The Extent of the Market and Optimal Specialization,” *Economic Theory* (2005).

Shi, S. “Money and Specialization”, *Economic Theory* (1997).

II. Other Micro-founded Models of Money

A. OLG models of money.

B. OLG/Islands models

C. OLG/search model

Zhu, T. “An Overlapping Generations Model with Search.” Forthcoming in *Journal of Economic Theory*.

III. “Shortcut” Models of Money

A. Money in the Utility Function.

B. Shopping Time Models

C. Cash in Advance Models

D. Comparing models

*Kocherlakota, N. "The Technological Role of Fiat Money," *Quarterly Review* of the Federal Reserve Bank of Minneapolis, (Summer 1998), pp. 2-10.

IV. Banking Issues

*Diamond, D. and P. Dybvig (1983) "Bank Runs, Deposit Insurance, and Liquidity", *Journal of Political Economy*, Vol. 91, p. 401-419.

*Townsend, R. (1979) "Optimal Contract and Competitive Markets with Costly State Verification", *Journal of Economic Theory*, Vol., p.265-293.