

# Monetary Theory. Module IV, 2007-2008.

**Instructor:** Alexei Deviatov

**Primary Texts:**

- C. Walsh. Monetary theory and policy, 2nd edition. MIT Press, 2003.
- L. Ljungqvist and T. Sargent. Recursive macroeconomic theory. MIT Press, 2000.

**Auxiliary Text:**

- Drew Fudenberg, Jean Tirole. Game theory. MIT Press, 1991.

**Papers:**

Besides the above text books the course is based on research papers. Please see the bibliography for a detailed list of course-related materials.

**Grading:**

There will be 2 home assignments (40%) and a final exam (60%). Homework will be given every third week. Due dates and the date of exam will be announced in class. Although attendance is not mandatory, students are responsible for the readings and for being aware of all oral announcements made in regard to this course. All homework is due to the beginning of class on the due date and will be collected at that time. Late homework will be accepted and graded, yet a substantial discount will be applied unless you have a valid excuse. In most cases valid excuse is an unforeseen circumstance beyond student's control such as illness or family emergency. If you are unable to participate in the important elements of this course because of a circumstance which qualifies as a valid excuse, please notify instructor and the vice-rector for student affairs as soon as possible. Please be ready to provide written evidence of your situation. Note that it is a responsibility of the vice-rector for student affairs to determine whether your particular situation qualifies as a valid excuse.

## COURSE OUTLINE.

The uses and the role of money. Quantity theory and the classical dichotomy. The price of gold and the Cagan money demand function. 2 lectures.

Read: [5], ch. 2, [2], and class notes.

Money in the utility function. Cash-in-advance constraint and shopping-time model. Neutrality, superneutrality of money, and the Friedman rule. Qualitative equivalence of MIUF, CIA, and shopping-time models. Ten monetary doctrines. 5 lectures.

Read: [16], ch. 2-3, [17], [10], ch.17.

Models with “nice micro foundations”: why should we care? Money as a medium of exchange: search, bargaining, money, and prices. Implementable allocations and some alternative notions of implementability. Heterogeneity in asset holdings and the optimal monetary policy. 4 lectures.

Read: [15], [12], [13], [1], [4].

Money and credit in a matching model. Monetary policy and the business cycle. 3 lectures.

Read: [8], [9], [14], [3].

## References

- [1] Alexei Deviatov, Neil Wallace. Another example in which money creation is beneficial. *Advances in Macroeconomics*, vol. 1 (2001), no. 1, article 1.
- [2] Alexei Deviatov, Neil Wallace. Estimating a Cagan-type demand function for gold: 1561-1913. Working paper, New Economic School, 2006.
- [3] Alexei Deviatov, Neil Wallace. A new model of central-bank intervention: an example. Working paper, New Economic School, 2007.
- [4] Alexei Deviatov. Money creation in a random-matching model of money. *Topics in Macroeconomics*, vol. 6 (2006), no. 3, article 5.

- [5] Milton Friedman. The optimum quantity of money and other essays. Aldine de Gruyter, 1969.
- [6] Drew Fudenberg, Jean Tirole. Game theory. MIT Press, 1991.
- [7] Nobuhiro Kiyotaki, Randall Wright. A search-theoretic approach to monetary economics. *American Economic Review*, 83 (1993), 63-77.
- [8] Narayana Kocherlakota. Money is memory. *Journal of Economic Theory*, 81 (1998), 232-251.
- [9] Narayana Kocherlakota, Neil Wallace. Incomplete record-keeping and optimal payment arrangements. *Journal of Economic Theory*, 81 (1998), 272-289.
- [10] Lars Ljungqvist, Thomas Sargent. Recursive macroeconomic theory. MIT Press, 2000.
- [11] Ariel Rubinstein. Perfect equilibrium in a bargaining model. *Econometrica*, 50 (1982), 97-109.
- [12] James Tobin. Discussion. Models of monetary economics. John Kareken, Neil Wallace, -eds. Federal Reserve Bank of Minneapolis, 1980.
- [13] Alberto Trejos, Randall Wright. Search, bargaining, money and prices. *Journal of Political Economy*, 103 (1995), 118-141.
- [14] Alberto Trejos, Randall Wright. International currency, *Advances in Macroeconomics*, 1 (2001), article 3.
- [15] Neil Wallace. Whither monetary economics? *International Economic Review*, 42 (2001), 847-869.
- [16] Carl Walsh. Monetary theory and policy, 2nd edition. MIT Press, 2003.
- [17] Ping Wang, C. K. Yip. Alternative approaches to money and growth. *Journal of Money, Credit and Banking*, 24 (1992), 553-562.