

**CARLETON UNIVERSITY**  
**DEPARTMENT OF ECONOMICS**  
**Economics 4607**

**Monetary Theory I: Microeconomic Aspects of Monetary Theory**

**Instructor: Stephen Ferris**

**Summer 2007**

**OFFICE: A801 Loeb**

**OFFICE HOURS: Tuesday: 5:30 - 6:30**

**Wednesday: 5:00 - 6:00**

<b>COURSE GRADING:</b>	Mid Term Test	June 4	40%
	Final Exam	in the exam schedule	60%

**COURSE PREREQUISITES:** ECON 2002, 2003 and ECON 2102, 2103 with an average grade of C- or higher; or 2001 and 2101 with an average grade of C- or higher. If you believe that you have an equivalent background or a similar course from another university you must complete the Prerequisite Waiver Form as found on the Economics department website [www.carleton.ca/economics](http://www.carleton.ca/economics).

**SHORT FORMS:** QJE = Quarterly Journal of Economics; PE = Journal of Political Economy  
AER = American Economic Review; JMCB= Journal of Money Credit and Banking

**Background Texts and Readings Collections: (\*\* on reserve in the main Library)**

1. D. Gale (1) Money in Equilibrium, Cambridge, 1982\*\*  
(2) Money in Disequilibrium, Cambridge, 1983\*\*
2. J. Niehans, The Theory of Money, Johns Hopkins, 1978\*\*
3. K. Nagatani, Monetary Theory, North-Holland, 1978\*\*
4. R. Clower, Monetary Theory, Penguin, 1969\*\*
5. R. Thorn, Monetary Theory and Policy, Praeger, 1969\*\*
6. R. Starr, General Equilibrium Models of Monetary Economics, Academic Press\*\*
7. McCallum, B. Monetary Theory, Macmillan, 1989\*\*
8. Carl E. Walsh, Monetary Theory and Policy (MT&P), MIT Press, 1998.

**I. The Integration of Monetary and Value Theory**

1. C. Walsh, MT&P, Chapter 1 — The Empirical Evidence on Money, Output and Prices.
2. D. Patinkin, Money, Interest and Prices, Chs. 1-4, 8. \*\*Ch. 3 in Clower Ch. 8 and Thorn
3. B. Hansen, General Equilibrium Systems, McGraw-Hill, Chs.3-8. \*\*
4. Hicks, J. "A Suggestion For Simplifying The Theory of Money", Economica, 1935, in AEA Readings in Monetary Theory, \*\* also in Starr, \*\* Thorn\*\*, and Clower\*\*.
5. Nagatani, Ch.1 \*\*
6. Archibald, G.C. and Lipsey, R.G."Monetary and Value Theory" in Clower\*\* and Thorn.
7. Clower and Burstein,"The Classical Invariance Principle" reprinted in Clower\*\*
8. C. Walsh, MT&P, Chapter 2, Money and Growth, Money in the UF
9. S. Fischer, "Capital Accumulation on the Transition Path in a Monetary Optimizing Model", Econometrica 47 (November 1979), 1433-1439.

**II. Wicksellian Integration: Real and Money Effects**

1. K. Wicksell, Lectures on Political Economy, Vol. II: Money; Sect.IV\*\*
2. A. Leijonhufvud, Information and Coordination, Oxford, 1981, Ch. 7.\*\*

### **III. Money, Involuntary Unemployment and Disequilibrium**

1. Patinkin, Chapter 13 \*\*
2. Clower, Ch. 14, 19, 20.\*\*
3. R. Barro and S. Grossman, Money, Employment and Inflation, Cambridge 1976.\*
4. A. Leijonhufvud, On Keynesian Economics and the Economics of Keynes, Part V, Ch2,
5. Casson, M. Unemployment: A Disequilibrium Approach, Oxford, 1981.
6. Svensson, L. "Money and Asset Prices in a Cash-in-Advance Economy, JPE, (Oct 1985).
7. Cooley, T. and G. Hansen, "The Inflation Tax in a Real Business Cycle Model" AER 79 (September 1989), 733-748.
8. Blanchard and Fischer, pp. 165-68.

### **IV. Expectations and Wealth Effects:**

1. Gale (1) Chapters 2-3; (2) Ch. 1.7-1.11.\*\*
2. Metzler, L. "Wealth, Savings and the Rate of Interest", reprinted in Thorn.\*\*
3. Barro, R. "Are Government Bonds Net Wealth", JPE, (Nov. 1974).\*\*
4. Barro, R. "The Neoclassical Approach to Fiscal Policy," printed as Ch. 5 of R. Barro, Modern Business Cycle Theory, Harvard University Press, 1989.\*\*
5. Blanchard and Fischer; Ch. 2 (chapter 4 and appendix)
6. C. Walsh, MT&P, Ch.4, Money and Public Finance

### **V. The Transactions Approach to the Demand for Money**

1. Nagatani, Ch.4 \*\*
2. Baumol, "The Transactions Demand for Cash", QJE, (November 1952), in Thorn\*\*.
3. Kimbrough, K., "Inflation, Employment and Welfare in the Presence of Transactions", JMCB, (May 1986), 127-40.
4. Dowd, Kevin, "The Value of Time and the Transactions Demand for Money" JMCB, (February 1990), 51 - 64.
5. C. Walsh, MT&P, Ch. 3, Shopping time, Cash-in advance models.

### **VI. Transactions, Uncertainty and the Demand for Money**

1. Whalen, E. "A Rationalization of the Precautionary Demand for Money" QJE, (Nov 1966).
2. Miller and Orr, "A Model of the Demand for Money by Firms", QJE, (November 1966).
3. Ferris, S. "A Transactions Demand for Trade Credit Use", QJE, (May 1981).

### **VII. General Equilibrium and Money**

1. Grossman, S. and Weiss, L. "A Transactions-Based Model of the Monetary Transmission Mechanism, AER, (December 1983).
2. Romer, D. "A Simple General Equilibrium Model of the Baumol-Tobin Model", QJE, (November 1986).
3. Savings T, "Transactions Costs and the Demand for Money", AER, (June 1971) see also the Parkin paper same issue.
4. Wallace, N. "Some Alternative Monetary Models and their Implications for Open Market Policy, Ch. 8, R. Barro, Modern Business Cycle Theory, Harvard U.P., 1989.\*\*
5. Townsend, R.M. "Financial Structure and Economic Activity", AER, (December 1983).
6. Williamson, S. "Financial Intermediation, Business Failures, and Real Business Cycles, JPE, (December 1987), 1196-1216.

7. Bryant, J. and N. Wallace, "The Inefficiency of Interest Bearing National Debt" JPE 87 (April 1979) 365-81.
8. Chatterjee, S. and D. Corbae, "Endogenous Market Participation and the General Equilibrium Value of Money" JPE, 100 (June 1992), 615-45.

### **VIII. Money and the Market**

1. Clower, R. "On the Origin of Monetary Exchange", Economic Inquiry, (Oct, 1995), 525-36
2. Nagatani, Part II, Chs. 5-9.\*\*
3. Ostroy J., "The Information Efficiency of Exchange", AER (Sept 1973), in Starr Ch. 10.\*\*
4. Starr, R.M. "The Structure of Exchange in Barter and Monetary Economies", QJE, (1972) in Starr Ch. 11.\*\*
5. Ostroy and Starr, "The Money and the Decentralization of Exchange" Econometrica, v.39 n.4, pp. 1093-1113, also in Starr, Ch. 12.\*\*
6. K. Menger, "On the Origin of Money", in Starr Ch. 7.\*\*
7. Jones, R. "The Origin and Development of the Media of Exchange", JPE, (August 1976).
8. Alchian, A. "Why Money?" Journal of Money Credit and Banking, (1977).\*\*
9. Kiyotaki, N. and R. Wright, "On Money as a Medium of Exchange", JPE (Aug 1989), 927
10. Kiyotaki and Wright, "A Search-Theoretic Approach to Monetary Economics, AER 83 (1993), 63-76.
11. Williamson, S., and R. Wright, "Barter and Monetary Exchange Under Private Information", AER, (March 1994), 104-123.

### **IX. New Money Economics**

1. Selgin, G.A. and L.H. White, "How would the Invisible Hand Handle Money", Journal of Economic Literature, (Dec. 1994), 1718-1749.
2. Klein, Benjamin, 1975, "The Competitive Supply of Money", Journal of Money, Credit, and Banking, 6 (November), 423-452.
3. White, L. H., 1999, The Theory of Monetary Institutions, Malden, Ma.: Blackwell Publishers.
4. "On Hayek's Denationalisation of Money, Free Banking, and Inflation Targeting" European Journal of the History of Economic Thought Vol. 13, No. 2 (June 2006), 213-231, with Jack Galbraith.

### **Policy for student's missing the midterm test or final exam**

**Students who miss the mid term exam will write a special 100% final exam based on the material of the whole course. Student who miss the final exam will receive the grade of ABS and must petition the registrars office for permission to write a deferred exam. Should permission be given, the deferred exam will be given in the time period established in the calendar.**

### **For Students with Disabilities:**

**Students with disabilities needing academic accommodations are required to contact a co-ordinator at the Paul Menton Centre to complete the necessary letters of accommodation. The student must then make an appointment to discuss their needs with the instructor at least two weeks prior to the first class test or ITV test. This is to ensure sufficient time is available to make the necessary accommodation arrangements. Please note the following deadline for submitting completed forms to the PMC for formally scheduled exam accommodations: June 8, 2007 for early summer courses & July 27, 2007 for late summer courses.**