

Econ 7500
Spring 2016
Office Hr: W 1 – 2 or by appt

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Office: OSH 354

ECON 7500: Advanced Monetary Theory

The objective of the course is to provide an in-depth understanding of money and financial institutions and how they function in an advanced capitalist market economy. The course consists of three sub-sections. The first section focuses on why and how money matters, drawing out the analytical issues and problems involved in the conceptualization of its macroeconomic role. In Section II the discussion shifts to the role of financial structure and the macroeconomic effects of various capital market anomalies. This is followed up in greater detail in Section III in connection with the two major historical episodes of financial crisis, the Great Depression of the 1930s and the current global financial crisis.

Course Evaluation is based on two midterm (25% each) and a final exam (30%) and a term paper or project (20%).

Course Outline

I. Money and Macroeconomics

i. An Overview and Introduction

What is money?

How does it figure in macroeconomic theory?

Neutrality of Money and Classical Dichotomy

What was Keynes's innovation?

Peterson, W. (1988). *Income, Employment and Economic Growth*. Chp. 4

Lavoie, M. & W. Godley (2007). *Monetary Economics. An Integrated Approach to Credit, Money, Income, Production and Wealth*. Chps: 1.

Krugman, P. (1999). *The Return of Depression Economics*, Chp. 1. W.W. Norton

Minsky (1974). *John Maynard Keynes*, Chp 1,2

Minsky, H. (1976). *Stabilizing and Unstable Economy*, Chps. 5 & 6.

- Bellofiori, R. (1992). (1992). "Monetary Macroeconomics Before General Theory: The Circuit Theory of Money in Wicksell, Schumpeter and Keynes," *Social Concept*, 6(2).

ii. *Different Views of Non-Neutrality of Money*

Reconciling Quantity Equation of Money with Keynes

Sticky wages

Liquidity Preference

Endogenous Money Tradition

Asset Mispricing ?

Kaldor, N. (1983). "Keynes' Economics After Fifty Years," in J. Trevithick & N. Worswick (eds.) *Keynes and the Modern World*. Cambridge Un Press.

Hicks, J.R. (1937). "Mr. Keynes and the "Classics"; A Suggested Reinterpretation," *Econometrica* 5(2).

Modigliani, F. (1944). "Liquidity Preference and the Theory of Interest and Money," *Econometrica* 12(1).

Friedman, M. (1987). "A Theoretical Framework for Monetary Analysis," *Journal of Political Economy*, 78(2).

Hannsgen, G. (2006). "The Transmission Mechanism of Monetary Policy: A Critical Review," in P. Arestis and M. Sawyer (eds.) *A Handbook of Alternative Monetary Economics*. Edward Elgar.

- Davidson, P. (1972). "A Keynesian View of Friedman's Framework for Monetary Analysis," *Journal of Political Economy*, 80(5).
- Kaldor, N. & J. Trevithick (1981). "A Keynesian Perspective on Money," *Lloyd Bank Review*, 139, pp. 1-19.
- Palley, T. (2013). "Horizontalists, Verticalists, and Structuralists: The Theory of Endogenous Money Reassessed," IMK Working Paper.

II. Financial Macroeconomics

i. *Financial Cycles and Procyclical Credit Supply*

What causes financial fragility?

What has Changed Since Minsky?

Asset Price Bubbles and Procyclical Credit

Minsky, H. (1976). *Stabilizing and Unstable Economy*, Chps. 7,8 and 9, 10.

Erturk, K. (2006). "Asset Price Bubbles, Liquidity Preference and the Business Cycle," *Metroeconomica* 57(2).

Allen, F. & D. Gale (1999). "Bubbles, Crises, and Policy," *Oxford Review of Economic Policy* 15(3).

- Shleifer, A. & L. Summers (1990). "The Noise Trader Approach to Finance," *Journal of Economic Perspectives* 4(2).
- Erturk, K. (2007). "On the Minskyan Business Cycle," in P. Arestis and G. Zezza (eds.) *Advances in Monetary Policy and Macroeconomics*, Palgrave MacMillan.
- Taylor, L. & A. O'Connell (1985). "A Minsky Crisis," *Quarterly Journal of Economics*, 100, pp. 871-876.

ii. *Financial Accelerator*

Procyclical Credit and Agency Cost

New Financial Accelerator

Gertler, M. (1988). "Financial Structure and Aggregate Economic Activity: An Overview," *Journal of Money, Credit, and Banking*, 20(3).

Bernanke, B. (1993). "Credit in the Macroeconomy," *Federal Reserve Bank of New York Quarterly Review*, Spring, 18(1).

Bernanke, B. & M. Gertler (1995). "Inside the Black Box: The Credit Channel of Monetary Policy," *Journal of Economic Perspectives* 9(4).

Adrian, T. & H. Shin (2010). "Liquidity and Leverage," *Journal of Financial Intermediation* 19, pp. 418-37.

- Bernanke, B. & M. Gertler (1996). "Financial Accelerator and the Flight to Quality," *Review of Economics and Statistics*, 78(1).
- Columba, F., Comaachia, W. & C. Salleo (2009). "Financial Sector Pro-Cyclicality. Lessons from the Crisis, Part I" *Vox*, June 30.

III. Financial Crisis

i. *The Great Depression*

Great Depression, Reassessed

Credit Boom Gone Bust

Breakdown of Global Intermediation

Keynes, M. (1930). "The Great Slump of 1930." Reprinted in his *Essays in Persuasion*, Chp. 5.

Bernanke, B. (1995). "The Macroeconomics of the Great Depression. A Comparative Approach." *Journal of Money, Credit and Banking*.

Eichengreen, B. & K. Mitchener (2004). "The Great Depression as a Credit Boom Gone Wrong," *Research in Economic History*, 22, pp. 183-237.

- Schularick, M. & A. Taylor (2009). "Credit Booms Gone Bust: Monetary Policy, Leverage and Financial Crises, 1870-2008," NBER Working Paper 15512. ii

ii. *Financial Deregulation and Shadow Banking*

Financial regulation, what is it supposed to do?

Financial deregulation, causes and drivers

Financial Intermediation, transformed

Brunnermeier, M. et al (2009). *The Fundamental Principles of Financial Regulation*. CEPR.

Erturk, K. & A. Kangas (2016). "The Case Against Financial Deregulation. Why was It More than Moral Hazard." Mimeo.

Adrian, T. & A. Ashcraft (2012). "Shadow Banking: A Review of the Literature," New York Federal Reserve Staff Report, No. 580.

Eatwell, J., Moukil, T. & L. Taylor (2009). "Liquidity, leverage and the impact of sub-prime t turbulence." Mimeo.

- Crotty, J. (2009). "Structural Causes of the Global Financial Crisis. A Critical Assessment of the 'New Financial Architecture,'" *Cambridge Journal of Economics* 33.
- Pozsar, Z., Adrian, T., Ashcraft, A. & H. Boesky (2013). "Shadow Banking," *FRBNY Economic Policy Review*, Dec.
- Coval, J., Jurek, J. & E. Stafford (2009). "The Economics of Structured Finance," *Journal of Economic Perspectives* 23(1).
- Claessens et al (2012). "Shadow Banking: Economics and Policy," IMF Staff Discussion Note, December 4.

iii. *Current Global Financial Crisis*

How and why did it happen?

Global Intermediation and its fault lines

Liquidity vs insolvency?

Adrian, T. & H. Shin (2010b). "The Changing Nature of Financial Intermediation and the Financial Crisis," *Annual Review of Economics*, 2, pp. 603-618.

Brunnermeier, M. (2009). "Deciphering the Liquidity and Credit Crunch," *Journal of Economic Perspectives*, 23(1).

D'Arista, J. & K. Erturk (2010). "The Case for Currency Reform," in *Real World Economics Review*, 55.

Koo, R. (2011). "The World In Balance Sheet Recession: Causes, Cure and Politics," *Real-World Economics Review*, 58.

- Palley, T. (2009). "America's Exhausted Paradigm. Macroeconomic Causes of the Financial Crisis and Great Recession," *Real-World Economics Review*, no. 50.
- Crotty, J. (2011). "The Great Austerity War: What Caused the US Debt Crisis and Who Should Pay for It?" PERI Working Paper 260.
- Shin, H. (2012). "Global Banking Glut and Loan Risk Premium," *IMF Economic Review* 60(2), pp. 155-192.
- Mundell, R. (2000). "A Reconsideration of the Twentieth Century," *American Economic Review*, 90(3): 327-340.

iv. Financial Globalization *and Open Economy Macroeconomics*
Global Imbalances – Europe and US - China
 Current Account vs Capital Account Based Adjustment

Temin, P. & D. Vines - *The Leaderless Economy*, Chps 5 & 6.

Hallwood, C. & R. MacDonald - *International Money and Finance* – Chps. 5 – 9

Keynes *A Treatise on Money* – Chps. 21,31,34,35, 38

- Eichengreen, B. (2006). "Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis," *Journal of Policy Modeling*, 28, pp. 645-652.
- Borio, C. & P. Disyatat (2011). "Global Imbalances and the Financial Crisis: Link or No Link?" BIS Working Paper 346.
- Obstfeld, M. & K. Rogoff (2009). "Global Imbalances and the Financial Crisis: Products and Common Causes." Mimeo.
- Adam, C. & D. Vines (2009). "Remaking Macroeconomic Policy after the Global Financial Crisis: A Balance Sheet Approach," *Oxford Review of Economic Policy*, 25(4).

