

Topics in Money, Finance and Growth

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COURSE DESCRIPTION:

This mini-course is devoted to selected topics in dynamic general equilibrium models of money and finance. It begins by reviewing the basic facts and fundamentals, followed by a series of studies on money, inflation and growth as well as on finance, development and crises. The main purpose of this course is to help you strengthen the fundamentals so as to enable smooth exploration of contemporary issues in money, finance and growth.

READINGS: (* required)

I. Introduction: The Development of the Foundation of Money and Finance

- Smith, Adam, *The Wealth of Nations*, ch. 4.
Wicksell, Knut, *Lectures on Political Economy*, Vol 2, ch. II.
Fisher, Irving, *The Theory of Interest*, ch. 9.
Schumpeter, Joseph A., *Business Cycles*, ch. III.D.
Gurley, John G. and Edward S. Shaw. *Money in a Theory of Finance*. The Brookings Institution, Washington, DC (1960).
Goldsmith, Raymond W. *Financial Structure and Development*. Yale University Press, New Haven, CT (1969).
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Becsi, Z. and P. Wang (1997), "Financial Development and Growth," *Economic Review*, 82(4), Federal Reserve Bank of Atlanta, 46-62.
Levine, R. (1997), "Financial Development and Economic Growth: Views and Agenda," *JEL*, 35, 688-726.
Walsh, Carl E. (1998), *Monetary Theory and Policy*, MIT Press.

II. Money in Dynamic General Equilibrium

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- Lucas, R. E., Jr. (1980), "Equilibrium in a Pure Currency Economy," *Economic Inquiry*, 18, 203-220.
- Wallace, N. (1980), "The Overlapping Generations Model of Fiat Money," in *Models of Monetary Economics*, J. H. Kareken and N. Wallace, eds., Minneapolis: Fed. Res. Bank.
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- Grossman, S., and L. Weiss (1983), "A Transactions-based Model of the Monetary Transmission Mechanism," *AER*, 73, 871-880.
- McCallum, B. T. (1983), "The Role of Overlapping-Generations Models in Monetary Economics," *CR*, 9-44.
- Lucas, R. E., Jr. and N. L. Stokey (1987), "Money and Interest in a Cash-in-Advance Economy," *EC*, 55, 491-513.
- Cooley, T. and G. Hansen (1989), "The Inflation Tax in a Real Business Cycle Model," *AER*, 79, 733-748.
- Kiyotaki, N. and R. Wright (1989), "On Money as a Medium Of Exchange," *JPE*, 97, 927-954.
- Diamond, P.A. and Yellin, J. (1990), "Inventories and Money Holdings in a Search Economy," *Econometrica*, 58, 929-950.
- Lucas, R. E. Jr., (1990), "Liquidity and Interest Rates," *JET*, 50, 237-264.
- Fuerst, T. S. (1992), "Liquidity, Loanable Funds, and Real Activity," *JME*, 29, 3-24.
- *Wang, P. and C. Yip (1992), "Alternative Approaches to Money and Growth," *JMCB*, 24, 553-562.
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- Tallman, E. and P. Wang (1995), "Money Demand and Relative Prices During Episodes of Hyperinflation," *JME*, 36, 375-404.
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- Li, V.E. (1995), "The Optimal Taxation of Fiat Money in Search Equilibrium," *IER*, 36, 927-942.
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- Mulligan, C. (1997), "Scale Economies, the Value of Time, and the Demand for Money: Longitudinal Evidence from Firms," *JPE*, 105, 1061-1079.
- Howitt, P. (2005), "Beyond Search: Fiat Money in Organized Exchange," *IER*, 46, 405-429.
- Lagos, R. and Wright, R. (2005), "A Unified Framework for Monetary Theory and Policy Analysis," *JPE*, 113, 463-484.
- Molico, M. (2006), "The Distribution of Money and Prices in Search Equilibrium," *IER*, 47, 701-722.
- Laing, D., V. Li and P. Wang (2007), "Inflation, Trade Frictions, and Productive Activity in a Multiple-Matching Model of Money," *JME*, 54, 1949-1961.
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III. Money and Endogenous Growth

- Wang, P. and C. Yip (1992), "Examining the Long-Run Effect of Money on Economic Growth," *JMacro*, 14, 359-369.
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- *Jones, L. and R. Manuelli (1995), "Growth and the Effects of Inflation," *JEDC*, 19, 1405-1428.
- Jha, S., P. Wang and C.K. Yip (2002), "Dynamics in a Transactions-Based Monetary Growth Model," *JEDC*, 611-635.
- Chang, J., W. Chang, C. Lai and P. Wang (2007), "Equilibrium Dynamics in an Endogenous Growth Model of Money and Banking," *JMCB*, 39, 1683-1710.

IV. Financial Development: A First Look at Finance and Growth

- Boyd, J. and E. Prescott (1986), "Financial Intermediary Coalitions," *JET*, 38, 211-232.
- Bernanke, B. and M. Gertler (1989), "Agency Costs, Net Worth, and Business Fluctuations," *AER*, 79, 14-31.
- Diamond, P. (1990), "Pairwise Credit in Search Equilibrium," *QJE*, 105, 285-319.
- Odedokun, M. O. (1996), "Alternative econometric approaches for analysing the role of the financial sector in economic growth: time-series evidence from LDCs," *JDE*, 50, 119-146.
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- Carlstrom, C. T. and T. Fuerst (1997), "Agency Costs, Net Worth, and Business Fluctuations: A Computable General Equilibrium Analysis," *AER*, 87, 893-910.
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- Guerrieri, V., R. Shimer, and R. Wright (2010), "Adverse Selection in Competitive Search Equilibrium," *Econometrica*, 78, 1823-1862.

V. Financial Intermediation and Endogenous Growth

- *Bencivenga, V. and B. D. Smith, 1991, "Financial intermediation and endogenous growth," *RES*, 58(2), 195-209.
- Tssidon, D. (1992), "A Moral Hazard Trap to Growth," *IER*, May, 299-321.
- Bencivenga, V. and B. Smith (1993), "Some Consequences of Credit Rationing in Endogenous Growth Model," *JEDC*, 17, 97-122.
- De Gregorio, J. and Guidotti, P. E. (1995), "Financial development and economic growth," *World Development*, 23, 433-448.
- Acemoglu, D. and F. Zilibotti (1997), "Was Prometheus unbound by chance? Risk, diversification and growth," *JPE*, 105, 709-751.
- Greenwood, J. and B. D. Smith (1997), "Financial markets in development, and the development

- of financial markets,” JEDC, 21, 145-181.
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VI. Financial Constraint and Economic Development

- Stiglitz, J. E. and A. Weiss (1981), “Credit Rationing in Markets with Imperfect Information,” AER, 71, 393-410.
- *Aghion, P. and P. Bolton (1997), “A Theory of Trickle-Down Growth and Development,” RES, 64, 151-72.
- Demirguc-Kunt, A. and V. Maksimovic (1998), “Law, finance, and firm growth,” *Journal of Finance*, 53, 2107-2137.
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- Fender, J. and P. Wang (2003), “Educational Policy in a Credit Constrained Economy with Skill Heterogeneity,” IER, 44, 939-964.
- Becsi, Z., V. Li and P. Wang (2005), “Heterogeneous Borrowers, Liquidity and the Search for Credit,” JEDC, 29, 1331-1360.
- Telyukova, I. A. and R. Wright (2008), “A Model of Money and Credit, with Application to the Credit Card Debt Puzzle,” RES, 75, 629-647.
- Becsi, Z., V. Li and P. Wang (2013), “Mismatch in Credit Markets,” EER.

VII. Financial Crises

- Rogers, J. and P. Wang, 1993, “High Inflation: Causes and Consequences,” *Economic Review*, Federal Reserve Bank-Dallas, 19-33.
- *Becsi, Z., P. Wang and M. Wynne (1999), “Costly Intermediation, the Big Push and the Big Crash,” JDE, 59, 175-193.
- *Hwang, J., N. Jiang, and P. Wang (2007), “Collusion and Over-lending,” *Economic Inquiry*, 45, 691-707.
- Matsuyama, Kiminori (2007), “Credit Traps and Credit Cycles,” AER, 97, 503-516.
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