

**University of Kansas  
Department of Economics**

**Economics 811  
Macroeconomics 2**

**Office:** 334 Snow Hall

**Office Hours:** Mondays 1:45 to 4:45 (frequently available beyond 4:45 if needed)  
Otherwise I am often available by appointment.

**Fall 2018  
Professor Keating  
Phone: 864-2837**

**Course Description:** Econ 811 is the second course in our PhD macro core sequence. It builds on Econ 810 by enhancing and extending your understanding of the tools and techniques used in macroeconomic analysis, by further investigating macroeconomic questions we began to study last semester, and by broadening the range of topics. A main goal of this course is that it prepare you to read papers at the frontier of modern macroeconomic research.

**Grades** are determined by your performance on two midterm exams (30% of course grade for each midterm) and a final exam (40%):

**FIRST MIDTERM:** Wednesday, October 3, in class

**SECOND MIDTERM:** Wednesday, November 7, in class.

**FINAL:** in this room on Wednesday, December 12 from 10:30 am to 1 pm.

**Schedule:** The class typically meets on Mondays and Wednesdays from 12:30 to 1:45. I am participating in the Joint Meetings of the European Economic Association and the European Meetings of the Econometric Society in Cologne Germany. This means I will be out of town for our scheduled August 27 and 29 classes. We will need to set make-up classes to replace these dates. I will soon be sending all of you a Doodle request so that we can find a time when all of you can attend make-up classes. At the moment I am thinking of the first make-up class being on or around Friday October 19 and the second being on or around November 16.

**Readings:** are primarily drawn from articles and from *Monetary Policy, Inflation and the Business Cycle*, 2nd edition, by Jordi Gali (Princeton, 2015), referenced as “Gali:” with chapter number. I also recommend some readings from two other texts from last semester: *Lectures in Macroeconomics* by Olivier Jean Blanchard and Stanley Fischer (MIT, 1989) referenced as “Blanchard and Fischer:”; and *Advanced Macroeconomics*, 4<sup>th</sup> Edition by David Romer (McGraw-Hill, 2011) referenced as “Romer:”. And I will cover some of the material in *Economic Growth*, 2<sup>nd</sup> Edition, by Robert J. Barro and Xavier I. Sala-i-Martin.

Below I also provide some suggested readings from *Monetary Theory and Policy* by Carl Walsh (denoted below by Walsh), *The Macroeconomics of Self-Fulfilling Prophecies* by Roger Farmer (denoted Farmer), *Interest and Prices: Foundations of a Theory of Monetary Policy* (denoted below by Woodford) and a few other texts that I have NOT ordered.

The syllabus references many important articles. Of course, the number of readings is much more than one could possibly absorb within a semester. This extensive list is to provide you with additional readings when you seek a deeper understanding of specific research topics now or in the future.

**Homework** will be assigned with some regularity. These questions are drawn primarily from the material we cover in class and the relevant readings. It is crucial that you put in a good effort on these questions as they are indicative of future exam questions.

**Abbreviations:**

ECMT=Econometrica

AER=American Economic Review

RESTAT=Review of Economics and Statistics

JME=Journal of Monetary Economics

JMCB=Journal of Money, Credit, and Banking

QJE=Quarterly Journal of Economics

CRCS=Carnegie-Rochester Conference Series

JPE=Journal of Political Economy

## Course Outline: Topics and Readings

### New Keynesian DSGE (Dynamic Stochastic General Equilibrium) Models

Gali J, *Monetary Policy, Inflation and the Business Cycle* (Princeton, 2015) 2nd edition, Chapters 1-4  
Romer: 6, 7, 11

Eric Sims's Graduate Macro Lecture Notes: [New Keynesian model](#)

Christiano L., M.Eichenbaum and C.Evans, 2005, "Nominal Rigidities and the Dynamic Effects of Monetary Policy Shocks" JPE

Smets F. and R.Wouters, 2007,"Shocks and Frictions in U.S. Business Cycle Models, AER

Smets F., and R. Wouters (2003)"An estimated dynamic stochastic general equilibrium model of the euro area." *Journal of the European Economic Association*1123-1175.

WALSH: Chapter 11

Peter N. Ireland (2004) "Technology Shocks in the New Keynesian Model", *The Review of Economics and Statistics*, vol. 86(4), pages 923-936,

Caballero R. (2010) *Macroeconomics After the Crisis: Time to Deal with the Pretense of Knowledge Syndrome* *Journal of Economic Perspectives*

\* Keating, J., Kelly, L., Smith A.L., and Valcarcel, V. "A Model of Monetary Policy Shocks for Financial Crises and Normal Conditions" forthcoming in *Journal of Monetary Credit and Banking*

Keating, J and Smith, A.L. "The Optimal Monetary Instrument and the (Mis)Use of Granger Causality" forthcoming in *Journal of Financial Stability*"

Keating, J and Smith, A.L (2017) "A New Interpretation of Money Growth Targeting and the Monetarist Experiment" WP

J. Lindé, F. Smets, R. Wouters, "Challenges for Central Banks' Macro Models" Chapter 28 in *Handbook of Macroeconomics Vol 2B*, 2185-2262

### Consumption Theory

Romer: Chapter 8

Blanchard & Fischer: Chapter 6.2

Friedman M. *A Theory of the Consumption Function*, Princeton University Press 1957

Modigliani F. and R. Brumberg "Utility analysis and the consumption function: An interpretation of cross-section data" in *Post-Keynesian Economics* ed K. Kurihara 1954

Hall R. "Stochastic implications of the life cycle-permanent income hypothesis" JPE 1978

Deaton A. *Understanding Consumption*, Oxford University Press 1992

Jappelli T. and M. Pagano "Consumption and capital market imperfections: An international comparison" AER 1989

*Dynamic Macroeconomic Theory*, by T. Sargent, chapter 1

Mehra J. and E. Prescott "The Equity Premium Puzzle" JME 1985

\* Kocherlakota, N. "The Equity Premium Puzzle: Its Still a Puzzle" JEL, 1996

### Investment, Uncertainty and Credit Markets

Romer: Chapter 9

Blanchard & Fischer: Chapters 6.3 and 9.6

Caballero R. "Aggregate Investment" *Handbook of Macroeconomics*, 1999 (Also NBER WP # 6264)

Jorgenson D. and R. Hall "Tax policy and investment behavior" AER 1967  
 Stiglitz, J. and A. Weiss "Credit Rationing in Markets with Imperfect Information," AER 1981  
 Fisher I. "The Debt-Deflation Theory of Great Depressions", ECMT, 1933  
 Minsky, H. John Maynard Keynes, chapters 3-9  
 Jaffee, D "Credit rationing" Ch:16 in Handbook of Monetary Economics  
 Fazzari S., Hubbard G. and Peterson B. "Financing Constraints and Corporate Investment" Brookings Papers on Economic Activity, 1988  
 Calomiris C. and Hubbard R. "Price Flexibility, Credit Rationing and Economic Fluctuations: Evidence from the U.S. 1879-1914," QJE, 1989  
 Gertler, M. "Financial structure and aggregate economic activity: An overview," JMCB, 1989.  
 Gilchrist S. & C. Himmelberg "Investment, Fundamentals & Finance" NBER Macro Annual, 1998  
 Hubbard G. "Capital Market Imperfections and Investment" JEL, 1998 (Also NBER WP #5996)  
 Cummins J., K.Hassett & S.Oliner "Investment Behavior, Observable Expectations & Internal Funds" AER, 2006  
 Ramey V. & K.West "Inventories" *Handbook of Macroeconomics*, 1999 (Also NBER WP # 6315)  
 \* Bernanke B., M. Gertler, and S. Gilcrest "The Financial Accelerator in a Quantitative Business Cycle Framework" *Handbook of Macroeconomics Vol 1* (also NBER WP)  
 Mark Gertler's online Lecture Notes: [Advanced Macro Course](#)

### **Empirical Evidence on Sticky Price Adjustment**

Gali: Chapter 1  
 \* Bilts, M, & P. Klenow "Some Evidence on the Importance of Sticky Prices." JPE (2004).  
 Blinder A., E. Canetti, D. Lebow and J. Rudd, *Asking About Prices: A New Approach to Understanding Price Stickiness*, Russell Sage Publishers, 1998  
 Carlton D. "The rigidity of prices," AER 1986  
 Cecchetti S. "The frequency of price adjustment: A study of the newsstand price of magazines, *Journal of Econometrics*, 1986  
 Roberts J., D. Stockton and S. Struckmeyer, "Evidence on the Flexibility of Prices," RESTAT, 1994  
 Kashyap A. "Sticky Prices: New Evidence from Retail Catalogs" QJE, 1995  
 Wynne M. "Sticky prices: What is the evidence?," Federal Reserve Bank of Dallas, *Economic Review*, First Quarter 1995  
 Keating J. and I. Kanyama "Is Sticky Price Adjustment Important for Output Fluctuations?" *Review of Keynesian Economics*, 2015

### **Models of Sticky Price Adjustment**

\* J.B. Taylor "The Staying Power of Staggered Wage and Price Setting Models in Macroeconomics" Chapter 25 in *Handbook of Macroeconomics Vol 2B*, 2017, 2009-2042.  
 Chap 9, M. Wickens, *Macroeconomic Theory: A Dynamic General Equilibrium Approach*, Princeton, 2008, (available on-line from publisher)  
 Romer: Chapter 6  
 Woodford, Chapter 3  
 Blanchard and Fischer, Chapter 8  
 Walsh: Chapters 2 and 5  
 \* Mankiw G. & R. Reis "Sticky Information versus Sticky Prices: A Proposal to Replace the New-Keynesian Phillips Curve" QJE 2002 (and also NBER WP 8290)  
 Fischer S. "Long-term Contracts, Rational Expectations, and the Optimal Money Supply Rule," JPE, 1977

Taylor J. "Aggregate dynamics and staggered contracts," JPE, 1980  
*J. of Economic Perspectives*, Winter 1993, Articles On New-Keynesian Economics  
 Akerlof, George A., and Janet L. Yellen. 1985. "A Near-Rational Model of the Business Cycle, with Wage and Price Inertia." QJE  
 Mankiw N. "Small menu costs and large business cycles: A macroeconomic model of monopoly" QJE 1985  
 Blanchard O. and N. Kiyotaki "Monopolistic competition and the effects of aggregate demand" AER 1987  
 Caplin A. and D. Spulber "Menus costs and the neutrality of money" QJE 1991  
 Caplin A. and J. Leahy "State-dependent pricing and the dynamics of money and output" QJE, 1991  
 Ball L. and D. Romer "Real rigidities and the non-neutrality of money" *Review of Econ. Studies* 1990  
 Rotemberg J.J., M. Woodford "The cyclical behavior of prices and costs" Chapter 16 *Handbook of Macroeconomics*  
 Farmer R. "Sticky prices," *Economic Journal* 1991  
 Farmer R. "Nominal price stickiness as a rational expectations equilibrium," JEDC 1992  
 King R. and M. Watson, "Money, Prices, Interest Rates and the Business Cycle", RESTAT, 1996  
 Calvo, G. "Staggered Prices in a Utility Maximizing Framework." JME, 12, no. 3 (1983): 383-398.

### **Overlapping Generations Model**

Romer: Chapter 2 Part B.  
 Barro & Sala-i-martin: Appendix to Chapter 3  
 Blanchard & Fischer: Chapter 3  
 Samuelson P. "An exact consumption-loan model with or without the social contrivance of money" JPE 1958  
 Diamond P. "National debt in a neoclassical growth model" AER 1965  
 \* Azariadis, C. and B. Smith "Private information, money and growth: Indeterminacy, fluctuations and the Mundell-Tobin Effect," *Journal of Economic Growth*.  
 Choi C, B Smith & J Boyd "Inflation, financial markets and capital formation" St.L FRB Review, 1996  
 Gaudi B. Eggertsson, Neil R. Mehrotra (2014) "A Model of Secular Stagnation" NBER Working Paper No. 20574  
 Gaudi B. Eggertsson, Neil R. Mehrotra, Jacob A. Robbins (2017) "A Model of Secular Stagnation: Theory and Quantitative Evaluation" NBER Working Paper No. 23093

### **Models of Aggregate Labor Markets**

Gali: Chapter 6  
 Shimer R. *Labor Markets and Business Cycles*, Princeton, 2010.  
 \* Shimer R. , R. Rogerson & R. Wright "Search theoretic models of the labor market: A survey" JEL, 2005  
 Romer, Chapter 10  
 Blanchard & Fischer Sections 9.1, 9.2, 9.3 and 9.4  
 Shapiro C. and J. Stiglitz "Equilibrium unemployment as a worker discipline device" AER 1984  
 Lilien D. "Structural shifts and cyclical unemployment" JPE 1982  
 Abraham K. and L. Katz "Cyclical unemployment: Sectoral shifts or aggregate disturbances" JPE 1986  
 Fitzgerald T. "An Introduction to the Search Theory of Unemployment" Cleveland Fed *Review*  
 D.T. Mortensen, C.A. Pissarides "New developments in models of search in the labor market" Chapter 39, *Handbook of Labor Economics*, Volume 3B.  
 Hall, R.E. "Labor-market frictions and employment fluctuations" Chapter 17 *Handbook of*

## Macroeconomics

C.A. Pissarides, *Equilibrium Unemployment Theory*, 2<sup>nd</sup> Ed, 2000, MIT Press

### Is the Phillips Curve Vertical in the Long Run?

<http://www.bos.frb.org/economic/conf/conf53/index.htm> (Boston Fed Conference in 2008)

\* Akerlof G, W. Dickens & G. Perry, "Near-Rational Wage and Price Setting and the Long-Run Phillips Curve" *Brookings Papers on Economic Activity*, (2000),

Akerlof G, W. Dickens & G. Perry, "The Macroeconomics of Low Inflation" *Brookings Papers on Economic Activity*, (1996)

Ball L. and G. Mankiw "The NAIRU in Theory and Practice" *Journal of Economic Perspectives*, 2002

Akerlof G & R. Shiller, *Animal Spirits*, Princeton, 2009, Chapters 1 and 9

\* Keating J. "Interpreting Permanent Shocks to Inflation when Money Growth is Endogenous" WP

### A Deeper Look at DSGE Modeling

J. Fernández-Villaverde, J.F. Rubio-Ramírez, F. Schorfheide "Solution and Estimation Methods for DSGE Models" Chapter 9 in *Handbook of Macroeconomics*, Vol 2A, 2017, 527-724.

Herbst, Edward P., and Frank Schorfheide (2015) *Bayesian Estimation of DSGE Models*, Princeton University Press.

\* An, S., and F. Schorfheide (2007): "Bayesian analysis of DSGE models," *Econometric Reviews*, 26, 113–172.

David DeJong and Chetan Dave, *Structural Macroeconometrics*, 2<sup>nd</sup> ed., Princeton, 2011.

Eric Sims of Notre Dame has a nice selection of course materials on DSGE modeling:

[http://www3.nd.edu/~esims1/grad\\_macro\\_15.html](http://www3.nd.edu/~esims1/grad_macro_15.html)

Jesus Fernandez-Villaverde has an even more advanced selection of DSGE course materials:

<http://economics.sas.upenn.edu/~jesusfv/teaching.html>

Judd K. *Numerical Methods in Economics*, MIT 1998

Marco Del Negro, Frank Schorfheide (2010) "Bayesian Macroeconometrics" *Handbook of Bayesian Econometrics*

Del Negro, Marco & Schorfheide, Frank, 2008. "Forming priors for DSGE models (and how it affects the assessment of nominal rigidities)," *Journal of Monetary Economics*, vol. 55(7), pages 1191-1208

Marco Del Negro & Frank Schorfheide, 2004. "Priors from General Equilibrium Models for VARS," *International Economic Review*, vol. 45(2), pages 643-673

Del Negro, M., F. Schorfheide, F. Smets, and R. Wouters. "On the Fit and Forecasting Performance of New Keynesian Models." *Journal of Business and Economic Statistics* (2007).

Ireland, Peter N. (2004): "A Method for Taking Models to the Data," *Journal of Economic Dynamics and Control* vol. 28(6), pages 1205-1226

Rotemberg J. and M. Woodford "Dynamic General Equilibrium Models with Imperfectly Competitive Product Markets", 1995, in *Frontiers in Business Cycle Research* ed. T. Cooley

King, R. and M. Watson, "Money, Prices, Interest Rates and the Business Cycle" *RESTAT* 1996, 35-53

Giacomini R. (2013) "The Relationship between DSGE and VAR Models" in *Advances in Econometrics* T. Fomby, L. Kilian and A. Murphy (Eds.)

Ravenna F. (2007) "Vector autoregressions and reduced form representations of DSGE models" *JME* 2048-2064

Del Negro, M., and F. Schorfheide (2013): "DSGE model-based forecasting," in *Handbook of Economic Forecasting*, ed. by G. Elliott, and A. Timmermann. Elsevier, Amsterdam.

Gurkaynak, R. S., B. Kisacikoglu, and B. Rossi (2013): "Do DSGE models forecast more accurately out-of-sample than VAR models?," *Advances in Econometrics*, 32, 27–79

### **Calibration**

WALSH: Chapter 2

Dawkins, C., T.N. Srinivasan and J. Whalley, "Calibration" Chapter 58 in *Handbook of Econometrics*, Volume 5

Watson, M "Measures of Fit for Calibrated Models" JPE, 1993, pp. 1011-41.

Kim K. & Adrian Pagan "The Econometric Analysis of Calibrated Macroeconomic Models" Chapter 7 in *Handbook of Applied Econometrics* Volume I : Macroeconomics, H. Pesaran & M. Wickens Eds., Blackwell, 1999

Pagan A. "On Calibration" in D.E.A. Giles and A. Ullah, *Handbook of Applied Economics*

### **Learning, Beliefs and Macroeconomics**

Primiceri G. (2006) "Why inflation rose and fell: Policymaker's beliefs and US postwar stabilization" QJE, 867-901.

Thomas Sargent, Noah Williams and Tao Zha , "Shocks and Government Beliefs: The Rise and Fall of American Inflation," *The American Economic Review*, Vol. 96, No. 4, September 2006

Sims C. "The Role of Models and Probabilities in the Monetary Policy Process" BPEA, 2002.

Brock W., S. Durlauf, and K. West "Policy Evaluation in Uncertain Economic Environments" BPEA, 2003.

*The Conquest of American Inflation*, Thomas J. Sargent, Princeton Univ. Press, 1999

*Learning and Expectations in Macroeconomics*, George Evans and Seppo Honkapohja, Princeton Univ. Press, 2001

George W. Evans & Seppo Honkapohja (2005) "Policy interaction, expectations & the liquidity trap," *Review of Economic Dynamics*, vol. 8(2), pages 303-323

### **Monetary Economics: Syllabus from older course on monetary economics**

Most of the following topics we will NOT have time to cover! This material is here mostly for future reference in case any of it interests you

#### **Empirical Evidence about Money**

Walsh: Chapter 1

Friedman M. and Schwartz A "Money and business cycles," RESTAT 1963.

Friedman and Schwartz, A Monetary History of the United States: 1867-1960, Princeton Univ. Press

\* McCandless Jr. G. and W. Weber, "Some Monetary Facts" Federal Reserve Bank of Minneapolis, *Quarterly Review*, Summer 1995.

#### **Foundations of Modern Theories of Money**

Orphanides, A. and R. Solow "Money, inflation and growth" Ch:6 in *Handbook of Monetary Economics* Walsh: Chapter 2.2

Tobin, J. "Money and economic growth," ECMT, 1964.

Brunner K. and Meltzer "The uses of money: money in the theory of an exchange economy," AER 1971

Hellwig, M. "The Challenge of Monetary Theory," EER, 1993.

Radford, R. A. "The economic organization of a P.O.W. camp," ECMT, 1945

Alchian A. "Why money?," JMCB 1977

Monetary Economics: Theory and Policy, by B. McCallum, Chapters:1,2,15

Money, Information and Uncertainty, by C. Goodhart, Chapters:1,2,3,4  
 Handbook of Monetary Economics, ed. B. Friedman and F. Hahn, Ch 1-5.  
 Laidler D. The demand for money: Theories, evidence and problems, Harper and Row, 1993  
 Keynes J. The General Theory, Chapter 15  
 Baumol W. "The transactions demand for cash - An inventory theoretic approach," QJE, 1952  
 Tobin J. "The interest elasticity of the transactions demand for cash," RESTAT, 1956  
 Barro R. "Integer constraints and aggregation in an inventory model of money demand" JFE 1976  
 Romer D. "A simple general equilibrium version of the Baumol-Tobin model" QJE 1986  
 Miller M. and D. Orr, "A model of the demand for money by firms," QJE, 1966  
 Tobin J. "Liquidity preference as behavior towards risk," Review of Economic Studies, 1958  
 Samuelson P. Foundation of economic analysis, Harvard, 519-529.  
 Friedman, M. "The quantity theory of money - A restatement," in Studies in the quantity theory of money,  
 \* Lucas R. "Two illustrations of the quantity theory" 1980 AER

### **Modern Theories of Money**

#### **Overlapping Generations Models of Money**

Blanchard & Fischer: Chapter 4.1  
 Farmer: Chapters 6 and 10.1  
 Wallace, N. "The overlapping generations model of fiat money," in Models of Monetary Economics, 1980  
 Wallace N. "A legal restrictions theory of the demand for money and the role of monetary policy" Minneapolis FRB, *Quarterly Review* 1983  
 Freeman S. "Transactions costs and the optimal quantity of money" JPE 1985  
 McCallum B. "The optimum amount of inflation in an overlapping generations economy with land" in New Approaches to Monetary Economics, ed. W. Barnett.  
 Bullard J. "Samuelson's Model of Money with n-Period Lifetimes," FRB-St. Louis Review, 1992.  
 McCallum B. "The role of the overlapping generations model in monetary economics," CRCS, 1983  
 Champ B. and S. Freeman, Modeling Monetary Economics, Chapters 1,3.  
 Azariadis, C. Intertemporal Macroeconomics, 1992, Chapters 7, 13.1 and 13.2  
 Brock, W. "Overlapping generations models with money and transactions costs" Ch:7 in Handbook of Monetary Economics  
 Dynamic Macroeconomic Theory, by T. Sargent, chapters:7,8

#### **Money in the Utility Function**

Walsh: Chapter 2  
 Blanchard & Fischer: Chapter 4.5  
 Samuelson P. Foundation of economic analysis, Harvard  
 Arrow K. and F. Hahn General competitive analysis, Holden-Day, 1971  
 Wallace, N. (2001) "Whither Monetary Economics?" *International Economic Review* 42, 847-869.  
 Dynamic Macroeconomic Theory, by T. Sargent, chapter:4  
 Sidrauski, Miguel "Rational Choice and Patterns of Growth in a Monetary Economy," AER, 1967  
 Brock, W. "A Simple Perfect Foresight Monetary Model," JME, 1975.  
 Obstfeld M. and K. Rogoff "Speculative hyperinflations in maximizing models: can we rule them out?" JPE, 1983  
 \* Feenstra, R. "The functional equivalence between liquidity costs and utility of money," JME, 1987.

Croushore, D. "Money in the Utility Function: Functional Equivalence to a Shopping Time Model,"  
Journal of Macroeconomics, 1993.

Fischer S. "Money in the production function," Economic Inquiry, 1974

### **Shopping Time Models of Money**

Walsh: Chapter 3.2

Monetary Economics: Theory and Policy, by B. McCallum, Chapter: 3

\* McCallum, B. and M. Goodfriend, "Theoretical Analysis of the Demand for Money" Richmond Fed  
Review; 1988

### **Cash-in-Advance Models of Money**

Walsh: Chapters 3.3 and 3.6

Blanchard & Fischer: Chapters 4.2 and 4.4

Clower R. "A reconsideration of the microfoundations of monetary theory," Western Econ Journal, 1967

Lucas R. "Asset Prices in an Exchange Economy" 1978 ECMT

Stockman, A. "Anticipated inflation and the capital stock in a cash in advance economy," JME, 1981.

Lucas and Stokey "Money and interest rates in a cash-in-advance economy," ECMT 1987

Lucas "Money in the theory of finance," CRCS, 1986

Kimbrough, K. "Inflation, employment and welfare in the presence of transactions costs," JMCB, 1986.

\* Cooley, T. and G, Hansen "The Inflation Tax in a Real Business Cycle Model," AER, 1989.

Ireland P. "Money and growth: An alternative approach," AER 1994.

Gomme, P. "Money and Growth Revisited: Measuring the Costs of Inflation in an Endogenous Growth  
Model," JME, 1993.

Braun R. "How large is the optimal inflation tax?," JME 1994.

Woodford, M. "Credit policy and the price level in a cash-in-advance economy," in New Approaches to  
Monetary Economics, ed. W. Barnett.

Hodrick R, Kocherlakota N & Lucas D "The variability of velocity in cash in advance models" JPE, 1991

Dynamic Macroeconomic Theory, by T. Sargent, chapter:5

Lucas R. Models of business cycles, Blackwell.

Labadie P. and S. Altug, Dynamic choice and asset markets, Academic, Ch 5.

Farmer: Chapters 10.2 and 10.3

### **Search Theories of Money**

Walsh: Chapter 3.4

\* Lagos R. & R. Wright "A Unified Framework for Monetary Theory and Policy Analysis," JPE 2005

Diamond P. "Money in search equilibrium" ECMT 1984

Kiotaki, N. and R. Wright "On Money as a Medium of Exchange" JPE 1989.

Kiotaki, N. and R. Wright "A Search Theoretic Approach to Monetary Economics" AER 1993.

Ritter J. "The transition from barter to fiat money" AER 1995

### **Monetary Aggregation Theory**

Barnett, W., D, Fisher, and A. Serletis "Consumer Theory and the Demand for Money" JEL 1992

Barnett W. "The Microeconomic Theory of Monetary Aggregation" in New Approaches to Monetary  
Economics, ed. W. Barnett, 1987.

Barnett, W. "The User Cost of Money". *Economics Letters* (1978), 145-149.

Barnett, W. "Economic Monetary Aggregates: An Application of Aggregation and Index Number  
Theory", Journal of Econometrics (1980), 11-48.



- Barnett, W. and A. Serletis. *The Theory of Monetary Aggregation*, in Contributions to Economic Analysis 245. Amsterdam: North-Holland (2000).
- Barnett, W., J. Keating & U. Chae, 2006. "The Discounted Economic Stock of Money with VAR Forecasting," *Annals of Finance*, vol. 2(3), pages 229-258, July.
- Barnett, W., J. Keating, & L. Kelly, "Toward a bias corrected currency equivalent index," *Economics Letters*, 2008
- \* Anderson, R., B. Jones & T. Nesmith "Monetary Aggregation Theory and Statistical Index Numbers" Federal Reserve Bank of St. Louis Review, January/February 1997, 79(1), pp. 31-51.

### **Estimating Money Demand Functions**

- Goldfeld S. "The Search for a Stable Money Demand Function," Brookings Papers 1973
- Goldfeld S. "The Case of the Missing Money" Brookings Papers on Economic Activity, 1976
- Cooley T. and LeRoy S. "Identification and estimation of money demand," AER, 1981
- Gordon R. "The short-run demand for money: A reconsideration," JMCB, 1984
- Goodfriend, M. "Reinterpreting Money Demand Regressions" CRCS 1985,207-41.
- Johansen, S. and K. Juselius, "Maximum Likelihood Estimation and Inference on Cointegration--With Applications to the Demand for Money" Oxford Bulletin of Econ & Statistics; 1990
- Hafer R. and D. Jansen "The demand for money in the United States: Evidence from cointegration tests" JMCB 1990
- Taylor M. "On the reinterpretation of money demand regressions," JMCB 1994.
- Goldfeld S. and D. Sichel "The demand for money" Ch:8 in Handbook of Monetary Economics

### **Rules versus Discretion, Credibility and Time Inconsistency**

- Gali: Chapter 5
- Walsh:8
- Blanchard & Fischer: Chapter 11.4
- Kydland F. and E. Prescott "Rules rather than discretion: the inconsistency of optimal plans," JPE 1977
- \* Barro R. and D. Gordon "A positive theory of monetary policy in a natural rate model," JPE 1983
- Rogoff, K. "Reputation, coordination and monetary policy," in Modern Business Cycle Theory, ed. Barro
- Waller C. and W. Witte "Policy analysis of the level and persistence of inflation, 1870-1991", 1992.
- Money, Information and Uncertainty, by C. Goodhart, Chapter:15
- Monetary Economics: Theory and Policy, by B. McCallum, Chapter:12
- Fischer, S. "Rules versus discretion in monetary policy" Ch:21 in Handbook of Monetary Economics
- Rogoff K. "The optimal degree of commitment to an intermediate target," QJE 1985.

### **Monetary Policy Procedures**

- Walsh: Chapter 9
- Romer: Chapter 11
- Blanchard & Fischer: Chapter 11.2
- Sargent, Thomas and Neal Wallace "Rational Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule," JPE 1975
- Fethke G. and Jackman R. "Optimal Monetary Policy, Endogenous Supply and Rational Expectations," JME, 1984
- Dotsey M. and King R. "Monetary Instruments and Policy Rules in a Rational Expectations Environment" JME, 1983
- McCallum B. "Rational Expectations and Macroeconomic Stabilization Policy," JMCB, 1980

McCallum B. "Price Level Determinacy with an Interest Rate Policy Rule and Rational Expectations," JME, 1981

### **Uncertainty and the Choice of Optimal Policy**

Poole, William "Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro-Model," QJE 1970

Keating "Intermediate monetary targets and macroeconomic fluctuations," Applied Economics, 1996

\* Brainard, W. "Uncertainty and the Effectiveness of Policy," AER, 1967

Sack B. "Uncertainty, Learning and Gradual Monetary Policy" Fed Board of Governors WP

Friedman M. "The effects of full-employment policy on economic stability: A formal analysis," in Essays in positive economics

*Monetary Economics: Theory and Policy*, by B. McCallum, Chapter:4

*Money, Information and Uncertainty*, by C. Goodhart, Chapter:14

Levin A., V.Wieland and J.Williams (1999) "Robustness of Simple Monetary Policy Rules Under Model Uncertainty" in John B. Taylor, ed., *Monetary Policy Rules*, Chicago: University of Chicago

### **Tools and Instruments**

Hamilton, James D. "The Daily Market for Federal Funds" JPE 1996

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