

## **Economics 281: Very Rough Draft Syllabus, Weeks 1 to 5**

*Not for citation. Very preliminary. Some entries need updating and the syllabus needs further co-ordination with co-operating faculty.*

Requirements: (1) A term paper including original research. The topic should be related to an issue treated in the course, and be approved by one of the instructing faculty.

AND

(2) Class presentation (typically of an item from the syllabus), choice to be approved by one of the instructing faculty.

**Lecture dates are approximate. Please read the assigned material prior to the scheduled lecture.**

**The notation “MME” refers to “Models of Monetary Economies” on the web from the Federal Reserve Bank of Minneapolis.**

### **I. A world without money, the Arrow-Debreu model (Sept. 28)**

Starr, *General Equilibrium Theory: An Introduction*, second edition, 2011, Cambridge University Press, chap 20.

Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989., chaps. 1, 24, 25.

Hahn, F. H., *Money and Inflation*, (1982), Oxford: Basil Blackwell. Chap. 1.

Tobin, J. “Discussion” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

Hahn, F. H., “Discussion” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

Hurwicz, L. “Discussion” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

Scheinkman, J. “Discussion” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

## **II. Money and the Theory of Value (Sept. 30)**

Hicks, J. R. “A Suggestion for Simplifying the Theory of Money” *Economica*, v. II, n. 5, pp. 1 – 19. Reprinted in Hicks, *Critical Essays in Monetary Theory*, Oxford University Press, 1967, and in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Tobin, J. “Money, Capital, and other Stores of Value”, *American Economic Review*, v. LI, n. 2, pp. 26 – 37. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Menger, K. “On the Origin of Money” , *Economic Journal*, n. 2, pp. 239 – 255, 1892. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Cass and Shell, “In Defense of a Basic Approach” in J. Kareken and N. Wallace, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

Jevons, W. S., *Money and the Mechanism of Exchange*, New York: D. Appleton, 1893, chaps. I, II, III. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Radford, R. A., “The Economic Organisation of a P.O.W. Camp” *Economica*, New Series, Vol. 12, No. 48. (Nov., 1945), pp. 189-201

Ostroy and Starr, “The Transactions Role of Money,” in *Handbook of Monetary Economics*. B. Friedman and F.H. Hahn, eds., North Holland, 1990.

Clower, R. “The Anatomy of Monetary Theory” *American Economic Review*, v. 67, n.1, Feb. 1977, pp. 206 – 212.

Smith, A. “Of the Origin and Use of Money,” *Wealth of Nations*, book I, chapter IV.

Starr, *Why Is There Money?*, 2012, Elgar. Chap. 1.

## **III. An elementary trading post model (Oct. 5)**

Starr, “Mengerian Saleableness and Commodity Money in a Walrasian Trading Post Example,” *Economics Letters*, 2008, vol. 100, issue 1, pages 35-38.

## **IV. A Monetary Trading Post Economy with Scale Economies (Oct. 7, 12, 14)**

Shapley and Shubik "Trade Using one Commodity as Means of Payment," *Journal of Political Economy*, 1977, v. 85, no.5 (October), pp. 937-968.

Starr, R. M. "Existence and uniqueness of 'money' in general equilibrium: natural monopoly in the most liquid asset," in Assets, Beliefs, and Equilibria in Economic Dynamics, edited by C. D. Aliprantis, K. J. Arrow, P. Hammond, F. Kubler, H.-M. Wu, and N. C. Yannelis; Heidelberg: BertelsmanSpringer. 2003.

Starr, R. M., *Why is there Money?* Northampton MA: Elgar 2012.

Alchian, A., "Why Money?" *Journal of Money Credit and Banking*, 1977, v. 9, pp. 131 – 140.

Smith, A., *Wealth of Nations*, 1776, vol. I, book II, chap. 2.

Goldberg, D. "Famous Myths of 'Fiat Money' " *Journal of Money, Credit, and Banking* 37(5), October (2005), 957-967]

Lerner, A. P., "Money as a Creature of the State," *American Economic Review*, Vol. 37, No. 2, Papers and Proceedings of the Fifty-ninth Annual Meeting of the American Economic Association. (May, 1947), pp. 312-317.

Newhouse, H. (2005), "The Emergence of a Medium of Exchange" unpublished, on the website.

## **V. Temporary equilibrium of a Monetary Economy (Oct. 19)**

Hahn, "On Some Problems of Proving the Existence of Equilibrium in a Monetary Economy" in *The Theory of Interest Rates*, F. H. Hahn and F. P. R. Brechling, eds., London: Macmillan, 1966. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Grandmont, J. M. "On the short run equilibrium in a monetary economy" in J. H. Dreze, ed., *Allocation under uncertainty: Equilibrium and Optimality*, New York, John Wiley, pp. 213 - 228. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

## **VI. General Equilibrium with Transaction Costs (Oct. 21)**

Foley, "Equilibrium with Costly Marketing" *Journal of Economic Theory*, 1970, v. 2, n. 3, pp 276 – 291. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Hahn, "Equilibrium with Transaction Costs" *Econometrica*, 1971, v. 39, n. 3, pp. 417 – 439. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Hahn, "On transaction costs, inessential sequence economies, and money", *Review of Economic Studies*, v. 40, 1973, pp. 449 –461.

Starrett, "Inefficiency and the demand for money in a sequence economy" *Review of Economic Studies*, v. XL, n. 4, 1973, pp. 437 –448. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Starr, R., "Money in a Sequence Economy: A Correction," *Review of Economic Studies*, v. XLV, n. 2, p. 391. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Kurz, M., "Equilibrium in a Finite Sequence of Markets with Transaction Cost," *Econometrica*, 1974, v. 42, pp. 1 – 20. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

Tobin, J. "The interest elasticity of the Transactions Demand for Cash," *Review of Economics and Statistics*, 1956, v. 38, pp. 241 -47.

Heller, W. P. and R. Starr "Equilibrium with Nonconvex Transactions Costs: Monetary and Nonmonetary Economies," *Review of Economic Studies*, XLIII (2), June 1976. Reprinted in Starr, *General Equilibrium Models of Monetary Economies*, Academic Press, 1989.

## **VII. Efficiency of the Monetary Mechanism (October 26, 28)**

Ostroy, J. M. and R. Starr, "Money and the Decentralization of Exchange," *Econometrica*, Vol. 42, No. 6 (Nov., 1974), pp. 1093-1113

Kyungmin Kim, Two notes on Ostroy & Starr's "Money and the Decentralization of Exchange" unpublished, on the website..

Starr, R. M. and M. Stinchcombe, “Exchange in a Network of Trading Posts,” in  
*Markets, Information and Uncertainty: Essays in Economic Theory in Honor of  
Kenneth J. Arrow*, G. Chichilnisky, ed., New York: Cambridge University Press,  
pp. 216 – 234.

Starr, R. M. “Efficient Structure of Exchange,” chapter 9 of Starr, R. *Why is there  
Money?*, Northampton, MA: Edward Elgar, 2012, on the website.

### **VIII. Money as Budget Record (overflow)**

Ostroy, J. M. , “The Informational Efficiency of Monetary Exchange,” *American  
Economic Review*, 1973, v.63, n.4, pp. 597 – 610.

Kocherlakota, N., “Money is Memory,” *Journal of Economic Theory*, Volume 81, Issue  
2, August 1998, Pages 232–251.

### **IX. Overlapping Generations. Search/Random Matching, Turnpike Model**

Cass, Okuno & Zilcha, “ The Role of Money in Supporting the Pareto Optimality of  
Competitive Equilibrium in Consumption Loan Type Models” MME

Wallace, N. “ The Overlapping Generations Model of Fiat Money” MME

Wallace, N. “Optimal money creation in “pure currency” economies: a conjecture”  
*Quarterly Journal of Economics* (2014) 129 (1): 259-274

Cass, D. & K. Shell, “In Defense of a Basic Approach” MME

Townsend, R. “Models of Money With Spatially Separated Agents” MME

Kiyotaki, N. and R. Wright, “On Money as a Medium of Exchange,” *Journal of Political  
Economy*, 1989, vol. 97, no. 4

Lagos, Rochetau, & Wright, “Liquidity:A New Monetarist Perspective; *Journal of  
Economic Literature*, forthcoming, on the website.