

ECON. 7500: Advanced Monetary Theory

The course begins with a historical overview of monetary theory and continues to examine the extent to which these theories help analyze contemporary monetary economic developments. Starting with Keynes, the discussion focuses on both his *A Treatise on Money* and *The General Theory* and reviews the theoretical disagreements that have emerged since then between Neo-classical Synthesis, Monetarist, New Classical and Post-Keynesian economists. The second part of the course is organized thematically, focusing on the issues and questions that are emphasized in the theoretical discussions covered in the first part of the course.

In the first part of the course the readings are excerpts from the following volumes:

- Bleaney, M. (1985). *The Rise and Fall of Keynesian Economics*.
- Keynes, J.M. (1930) *A Treatise on Money*, Vol. 1.
- Keynes, J.M. (1936) *General Theory of Employment, Interest and Money*.
- Leijonhufvud, A. (1981). *Information and Coordination*.
- Minsky, H. (1974). *John Maynard Keynes*.
- Viceralli, F. (1984) *Keynes: The Instability of Capitalism*.

Class evaluation will be based on 5 (or 6) in-class essays, a class presentation and a short term paper.

COURSE OUTLINE

Part I: Theoretical Overview

1. Introduction

Keynes (1963): Part II, Chp 2; Part III, Chp. 5
Viceralli (1984): Chps. 1-4

2. *A Treatise on Money*

Keynes (1930): Chps. 9-13,15-19
Viceralli, F. (1984). Chps. 5-6

2. *The General Theory*

Bleaney (1985): Chp. 1

Keynes (1936): Chps. 12-15,18
Keynes, J.M (1937). "The General Theory of Employment," *Quarterly Journal of Economics*, 51(2).
Bibow, J. (2001). "Loanable Funds Fallacy in Retrospect," *History of Political Economy*, 32(4).
Viceralli (1984): Chps. 7-11

3. Mainstream Keynesianism and After

- i. Hicks, J.R. (1937). "Mr. Keynes and the 'Classics': A Suggested Interpretation," *Econometrica*, 5(2), April.
Modigliani, F. (1944). "Liquidity Preference and the Theory of Interest and Money," *Econometrica*, January.
Leijonhufvud (1981): Chp. 8, "The Wicksell Connection."
Tobin, J. (1993). "Price Flexibility and Output Stability: An Old Keynesian View," *Journal of Economic Perspectives*, 7(1), pp. 45-65.
- ii. Bleaney (1985): Chps. 4,5
Friedman, M. (1997). "John Maynard Keynes," Federal Reserve Bank of Richmond *Economic Quarterly*, 83(2).
Minsky (1974); Chps: 3-7
Harrod, R. (1968). *Money*, Chps. 5-7, Macmillan, New York.
Cottrell, A. (1994). "Post-Keynesian Monetary Economics," *Cambridge Journal of Economics*, 18, pp. 587-605.
Kregel, J. (1985). "Hamlet Without the Prince: Cambridge Macroeconomics Without Money," *American Economic Review*, 75(2).

Part II: Themes and Alternative Research Questions

I. Keynes of *Treatise on Money*

i. Financial Structure and Economic Activity

Erturk, K. (Forthcoming). "Asset Price Bubbles, Liquidity Preference and the Business Cycle," *Metroeconomica*.
Gertler, M. (1988). "Financial Structure and Aggregate Economic Activity: An Overview," *Journal of Money, Credit, and Banking*, 20(3).
Gurley, J. & E. Shaw (1956). "Financial Intermediaries and the Saving-Investment Process," *Journal of Finance*, 11(2).
Kaldor, N. (1939). "Speculation and Economic Stability," *The Review of Economic Studies*, October.
Sinai, A. (1992). "Financial and Real Business Cycles," *Eastern Economic Journal*, 18(1).

ii. Financial versus Industrial Circulation

- Howells, P.G. & K.A. Hussein (1999). "The Demand for Bank Loans and the 'State of Trade,'" *Journal of Post Keynesian Economics*, 21(3).
- Howells, P.G. & I. Biefang-Frisancho Mariscal (1992). "The Recent Behavior of Income and Transaction Velocities in the UK," *Journal of Post Keynesian Economics*, 14(2).
- Miller, E. (1989). "Keynes' Monetary Theory and Bank Reserve in Britain," *Atlantic Economic Journal*, 17(1).
- Rousseas, S. (1996). "The Spheres of Industrial and Financial Circulation Revisited, and their Implications for Post Keynesian Economic Policy," in G. Deleplace & E. Nell (eds.) *Money in Motion*.
- Wray, L.R. (1996). "Money in the Circular Process," in Pollin, R. (1996). "Money Supply Endogeneity: What are the Questions and Why do they Matter?" in G. Deleplace & E. Nell (eds.) *Money in Motion*.

iii. Bank Behavior and Supply of Credit over the Business Cycle

- Bernanke, B., Gertler, M. & S. Gilchrist (1996). "The Financial Accelerator and the Flight to Quality," *The Review of Economics and Statistics*, 78(1), February.
- Bibow, J. (2000). "On Exogenous Money and Bank Behavior: The Pandora's Box Kept Shut in Keynes' Theory of Liquidity Preference," *European Journal of the History of Economic Thought*, 7(4).
- Gorton, G. (1998). "Banking Panics and Business Cycles," *Oxford Economic Papers*, 40, pp. 751-81.
- Pollin, R. (1996). "Money Supply Endogeneity: What are the Questions and Why do they Matter?" in G. Deleplace & E. Nell (eds.) *Money in Motion*.
- Sinai, A. (1993). "Financial and Credit Cycles. Generic or Episodic?" *Quarterly Review* (Federal Reserve Bank of NY), 18(1),

iv. Debt Deflation

- Bernanke, B. (1983). "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," *American Economic Review*, June.
- Dimand, R.W. (1994). "Irving Fisher's Debt Deflation Theory of Great Depressions," *Review of Social Economics*, 52(1), Spring.
- Fisher, I. (1933). "The Debt-Deflation Theory of Great Depressions," *Econometrica*, October.
- Minsky, H. (1982). "Debt Deflation Process in Today's Institutional Environment," *Banco Nazionale del Lavoro Quarterly Review*, December.
- Wolfson, M. (1996). "Irving Fisher's Debt-Deflation Theory: Its Relevance to Current Conditions," *Cambridge Journal of Economics*, 20(3), 315-334.

II. Keynes of *General Theory*, Neo-Keynesianism and Monetarist/New Classical Macroeconomics

i. Keynesian Theory of Finance

- Bernstein, P. (1998). "Stock Market Risk in a Post Keynesian World?" *Journal of Post Keynesian Economics*, Fall, 21(1), 15-24.
- Bibow, J. (1998). "On Keynesian Theories of Liquidity Preference," *Manchester School*, 66(2)
- Black, F. (1986). "Noise", *Journal of Finance*, July, 41, pp. 529-43.
- Kregel, J. (1998). "Aspects of a Post Keynesian Theory of Finance," *Journal of Post Keynesian Economics*, Fall, 21(1), 111-33.
- Scleifer, A. & L. Summers (1990). "The Noise Trader Approach to Finance," *Journal of Economic Perspectives*, 4(2), pp. 19-33.

ii. Money Aggregates, Income and Prices

- Andersen, L. & J. Jordan (1968). "Monetary and Fiscal Actions: A Test of Their Relative Importance in Economic Stabilization," *Federal Reserve Bank of St. Louis Review*, 50, November.
- Sims, C. (1972). "Money, Income, and Causality," *American Economic Review*, 62(4), September.
- Goldfeld, S. (1976). "The Case of Missing Money," *Brookings Papers on Economic Activity*, 3.
- Laidler, D. (1978). "Money and Money Income: An Essay on the Transmission Mechanism," *Journal of Monetary Economics*, April, 4(2).
- Judd, J. & J. Scadding (1982). "The Search for a Stable Money Demand Function: A Survey of the Post 1973 Literature," *Journal of Economic Perspectives*, 20(3), September.

iii. Money Aggregates, Income and Prices II: More Recent Research

- Friedman, B. & K. Kutner (1992). "Money, Income, Prices and Interest Rates," *American Economic Review*, 82(3), June.
- Bernanke, B. & A. Blinder (1988). Credit, Money, and Aggregate Demand, *American Economic Review*, May, pp. 435-9.
- Bernanke, B. & M. Gertler (1995). "Inside the Black Box: The Credit Channel of Monetary Policy Transmission," *Journal of Economic Perspectives*, 9(4), Fall.
- Davis, E.P. & S.G. Henry (1993). "The Use of Financial Spreads as Indicators of Real Activity," in P. Arestis (ed.) *Money and Banking: Issues for the Twenty-First Century*, London, Macmillan
- Goldfeld, S. & D. Sichel (1990). "The Demand for Money," *Handbook of Monetary Economics*, Vol. I, *Handbooks in Economics*, No. 8, pp. 299-356.

iv. Policy Ineffectiveness Doctrine, Term Structure of Interest Rates and the Rentier Strike?

Mankiw, N. & L. Summers (1984). "Do Long-Term Interest Rates Overreact to Short-Term Interest Rates," *Brookings Papers on Economic Activity*, 1.

Mankiw, N. (1986). "The Term Structure of Interest Rates Revisited," *Brookings Papers on Economic Activity*, 1.

Mishkin, F. (1990). "The Information in the Longer Maturity Term Structure About Future Inflation," *Quarterly Journal of Economics*, 105(3), 815-28.

Coleman, W. (1996). "Money and Output: A Test of Reverse Causation," *American Economic Review*, 86(1), March.

King, R. & C. Plosser (1984). "Money, Credit, and Prices in a Real Business Cycle," *American Economic Review*, 74(3), June.