

Econ 7500  
Fall 2017

Dr. Erturk  
Bldg 73, Rm 240  
Hr: W 1 – 2 or by appt

## **ECON 7500: Advanced Monetary Theory**

The objective of the course is to provide an in-depth understanding of money and financial institutions in an advanced capitalist market economy. The course consists of three sub-sections. The first section focuses on what *money* is, 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

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 Non-Neutrality

Sticky wages

Liquidity Preference

Endogenous Money Tradition

Asset Mispricing as Intermediation Failure

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. (1970). "A Theoretical Framework for Monetary Analysis," *Journal of Political Economy*, 78(2).

Lavoie, M. & W. Godley (2007). *Monetary Economics. An Integrated Approach to Credit, Money, Income, Production and Wealth*. Chps: 1-2.

Friedman, B. (1988). "Monetary Policy Without Quantity Variables," *American Economic Review*, 78, 440-5.

An Excursion - 'Endogenous' Money

- 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.

Minsky, H. (1977). "A Theory of Systemic Fragility," in E. Altman & A. Sametz (eds.) *Financial Crises: Institutions and Markets in Fragile Environment*. New York: John Wiley and Sons.

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).

- Erturk, K. (2007). "On the Minskyan Business Cycle," in P. Arestis and G. Zezza (eds.) *Advances in Monetary Policy and Macroeconomics*, Palgrave MacMillan.

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.

Borio, C., Craig, F. & P. Lowe (2001). "Procyclicality of the Financial System and Financial Stability: Issues and Policy Options," mimeo.

- Bernanke, B., Gertler, M. & S. Gilchrist (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 (2012). "Credit booms gone bust: Monetary policy, leverage cycles, and financial crises, 1870-2008", *American Economic Review*, 102, pp. 1029-1061.

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. (2017). "Deregulation and Intrinsic Moral Hazard in Financial Markets" University of Utah.

McCarty, N., Poole, K., Romer, T. & H. Rosenthal (2010). "Political Fortunes: On Finance and its Regulation," *Daedalus* 139(4).

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

- 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.

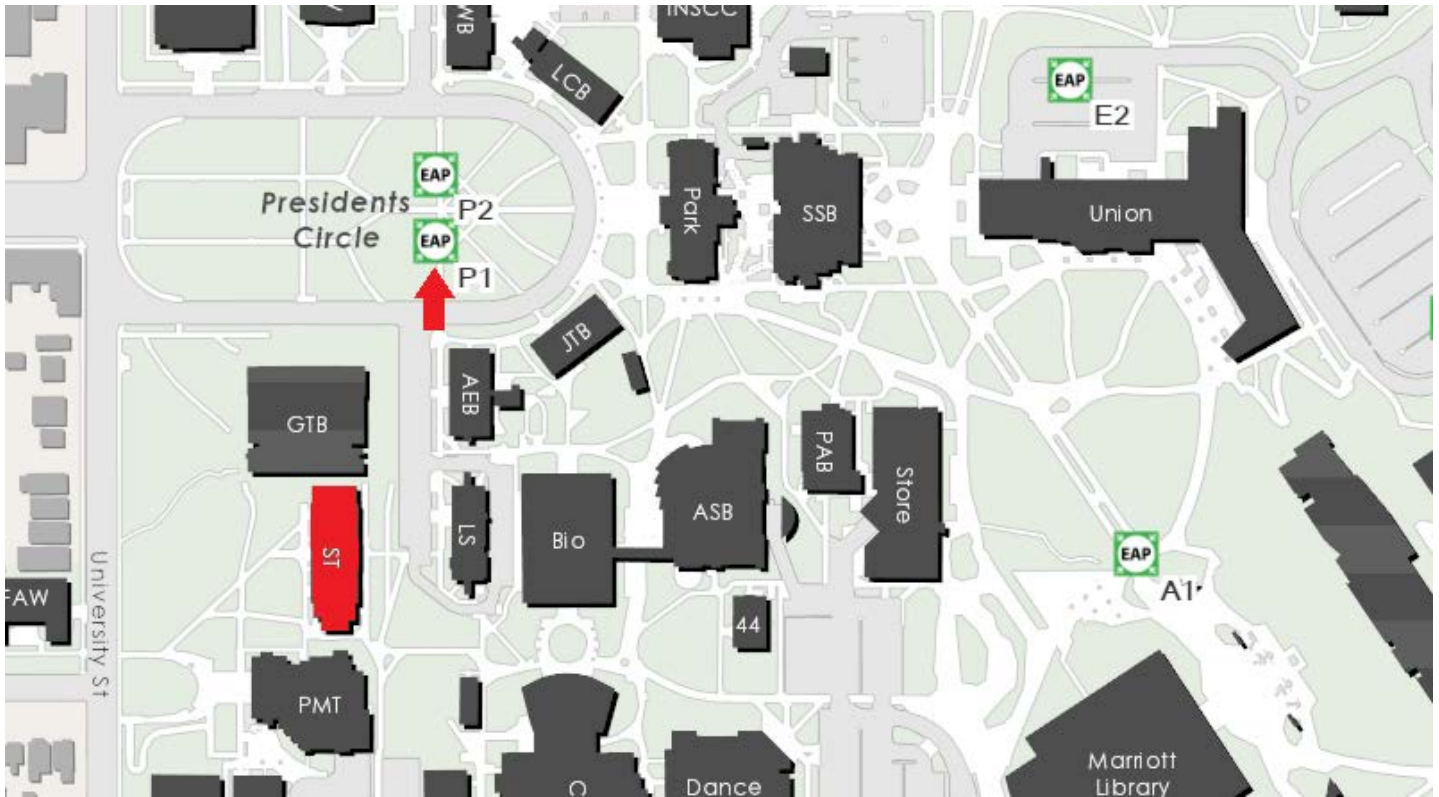
Keynes, J.M. (1930). *A Treatise on Money* – Chps. 21,31,34,35, 38

Eichengreen, B. (2010). "International Financial Regulation After the Financial Crisis," *Daedalus*, Fall.

- 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. (2012). "Financial Flows, Financial Crises, and Global Imbalances." *Journal of International Money and Finance*, 31.
- Adam, C. & D. Vines (2009). "Remaking Macroeconomic Policy after the Global Financial Crisis: A Balance Sheet Approach," *Oxford Review of Economic Policy*, 25(4).



# CSBS EMERGENCY ACTION PLAN



## BUILDING EVACUATION

EAP (Emergency Assembly Point) – When you receive a notification to evacuate the building either by campus text alert system or by building fire alarm, please follow your instructor in an orderly fashion to the EAP marked on the map below. Once everyone is at the EAP, you will receive further instructions from Emergency Management personnel. You can also look up the EAP for any building you may be in on campus at <http://emergencymanagement.utah.edu/eap>.



## CAMPUS RESOURCES

**U Heads Up App:** There's an app for that. Download the app on your smartphone at [alert.utah.edu/headsup](http://alert.utah.edu/headsup) to access the following resources:

- **Emergency Response Guide:** Provides instructions on how to handle any type of emergency, such as earthquake, utility failure, fire, active shooter, etc. Flip charts with this information are also available around campus.
- **See Something, Say Something:** Report unsafe or hazardous conditions on campus. If you see a life threatening or emergency situation, please call 911!

**Safety Escorts:** For students who are on campus at night or past business hours and would like an escort to your car, please call **801-585-2677**. You can call 24/7 and a security officer will be sent to walk with you or give you a ride to your desired on-campus location.