

## SYLLABUS

The main references for the course are the texts by Larence Ball and by Bruce Champ, Scott Freeman, and Joseph Haslag listed in the bibliography at the end of this syllabus. The books take quite different approaches, and the course itself will not closely follow either one. On some topics separate notes will be handed out. The Champ, Freeman and Haslag book is available in paperback. The Ball book is available on CourseSmart in electronic form. The electronic form costs about half what the bound physical book costs. It allows you for a span of some months to read online, download sections, and (I think) do limited printing of sections of the book.

There will be a final exam and a mid-term exam in the course and some graded problem sets. The final grade will put approximately 50 per cent weight on the final exam, thirty percent on the mid-term, and twenty percent on the problem sets. You may discuss the problem sets with other students, but each student must write up the answers separately. Grades on the problem sets will be on a 0,4,5,6 scale, with 0 for not handing it in or not making an effort, 4 for a somewhat deficient answer, 5 for a satisfactory answer, and 6 for a standout answer.

### 1. WHAT IS MONEY? WHAT IS A DOLLAR? WHAT IS THE PRICE LEVEL?

Ball, Chapter 2. Champ, Freeman and Haslag (CFH), Chapters 1 and 2.

### 2. PRICE LEVEL DETERMINATION WITH DOLLAR-DENOMINATED GOVERNMENT DEBT

Notes to be distributed.

- Uniquely determined price level?
- Quantity theory of the price level.
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### 3. ASSET PRICING

Ball, Chapter 3. CFH Chapter 6.

- Standard expectations theory
- Bubbles
- Is money a bubble?
- Risk: diversifiable or not
- Term structure
- Peso problems

#### 4. BANKS

CFH Chapter 7. Ball Chapters 7-9, Gorton and Metrick (2009a), (Gorton and Metrick, 2009b, optional, more detailed), Zha (2001)

- Intermediation
- Adverse selection and moral hazard
- Maturity transformation

#### 5. LIQUIDITY, SOLVENCY

Ball Chapter 18, CHF Chapters 12-13. (These cover this section and the next.)

- Maturity mismatch
- Runs
- Liquidity vs. solvency
- Costs of resolving bankruptcy
- Flight to safety: bubbles again?

#### 6. PRUDENTIAL REGULATION OF FINANCIAL MARKETS

Ball Chapter 10.

- Lender of last resort
- Reserve requirements?
- Capital requirements
- Deposit insurance

#### 7. CENTRAL BANK BALANCE SHEETS AND FISCAL BACKING

Stella (2005)

#### 8. EXCHANGE RATES, CURRENCY ATTACKS

CFH Chapter 4. Ball, Chapters 6 and 17.

#### 9. CONTROLLING INFLATION AND DEFLATION

Ball Chapter 11. CFH Chapters 5 and 17.

- Costs of inflation, deflation; Sticky prices, nominal contracts.
- Phillips curves.
- Time inconsistency, reputation.
- Taylor rules; inflation targeting.

*There will be additional current readings on the topics below.*

## 10. THE EURO EXPERIMENT

## 11. THE GREAT DEPRESSION

Case studies in Ball's Chapter 11.

## 12. THE CRISIS OF 2007-2011

Covered in Ball's chapter 18.

## 13. THE JAPANESE FINANCIAL CRASH AND STAGNATION

Case study starting on p.399 in Ball.

## REFERENCES

- BALL, L. M. (2011): *Money, Banking and Financial Markets*. Johns Hopkins University, second edn.
- CHAMP, B., S. FREEMAN, AND J. HASLAG (2011): *Modeling Monetary Economies*. Cambridge University Press, third edn.
- GORTON, G., AND A. METRICK (2009a): "Hair-cuts," Yale ICF Working Paper 09-15, Yale ICF, [http://papers.ssrn.com/sol3/Delivery.cfm/SSRN\\_ID1461863\\_code17513.pdf?abstractid=1447438&mirid=1](http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1461863_code17513.pdf?abstractid=1447438&mirid=1).
- GORTON, G. B., AND A. METRICK (2009b): "Securitized Banking and the Run on Repo," Working Paper 15223, National Bureau of Economic Research, <http://www.nber.org/papers/w15223>.
- STELLA, P. (2005): "Central Bank Financial Strength, Transparency, and Policy Credibility," *IMF Staff Papers*, 52(2), <http://www.internationalmonetaryfund.org/External/Pubs/FT/staffp/2005/02/stella1.htm>.
- ZHA, T. (2001): "Bankruptcy Law, Capital Allocation, and Aggregate Effects: A Dynamic Heterogeneous Agent Model with Incomplete Markets," *Annals of Economics and Finance*, 2, 379-400, <http://www.aecon.net/Articles/Nov2001/aef020205.pdf>.