

ECO 2052HF: Advanced Monetary Theory
University of Toronto
2013

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Office hours: 3:15pm-4:45pm, Monday, or by appointment.

Classes: 13:00 - 15:00, Monday (GE100)

Description of the course:

This is an advanced Ph.D. course on monetary economics for the second-year Ph.D. students. The course will be based on a collection of papers that cover liquidity, banking and business cycles. The economies analyzed by these papers have the common feature that frictions are important in the market. Students are expected to actively participate in the course through discussions and presentations. They are also expected to work out the models presented in the class and read the closely related papers. It is hoped that some of the papers presented in the course will lead to further exploration and possibly ideas for Ph.D. theses.

Grading:

1. Presentation of an article and participation in discussions (50%): The marks on presentation will depend on the level of difficulty of the article, the preparation, the delivery and the participation in others' presentations. A written report of the presented paper will be due on December 12, 2013. A paper to be presented does not have to come from the reading list below. Specific instructions are below:
 - (1) Please send me the title of the paper and the date of the presentation by email, no later than October 18, 2013. The availability of the paper and the date will be determined on the basis of first-come-first-serve. We may need to put additional classes to accommodate all presentations.
 - (2) The written report should be no more than 25 double spaced pages. The format of the report should be similar to the ones for the presentation, to be described further in the class.
 - (3) All presentations should use the projector rather than the chalk-board approach. Each presentation will take two hours, with a 10-minute break in the middle. Questions during the presentation are expected from the participants.
2. Final exam (50%).

Suggested reading list:

I. Liquidity, Banking and Financial Crisis

1. Diamond, D. and P. Dybvig, 1983, "Bank runs, deposit insurance and liquidity," *Journal of Political Economy* 91, 410-419.
2. Kiyotaki, N. and J.H. Moore, 2012, "Liquidity, business cycles, and monetary policy," manuscript, Princeton University.
3. Jermann, U. and V. Quadrini, 2009, "Macroeconomic effects of financial shocks," manuscript, University of Southern California.
4. Shi, S., 2012, "Liquidity, assets and business cycles," working paper, University of Toronto.
5. Gertler, M. and N. Kiyotaki, 2013, "Banking, liquidity and bank runs in an infinite horizon economy," Working paper, Princeton University.
6. Williamson, S., 2013, "Scarce collateral, the term premium, and quantitative easing," working paper, Washington University.
7. Cao, M. and S. Shi, 2001, "Screening, bidding, and the loan market tightness," *European Finance Review* 5 (2001), 21-61.
8. Covitz, D.M., Liang N. and G.A. Suarez, 2009, "The evolution of a financial crisis: panic in the asset-backed commercial paper market," *Finance and Economic Discussion series*, Federal Reserve Board.
9. The Dodd-Frank Wall Street reform and consumer protection act, US Senate, 2010.
10. Williamson, S., 1987, "Costly monitoring, loan contracts and equilibrium credit rationing," *Quarterly Journal of Economics* 102, 135-146.
11. DeMarzo, P.M. and D. Duffie, 1999, "A liquidity-based model of security design," *Econometrica* 67, 65-99.
12. DeMarzo, P.M., 2005, "The pooling and tranching of securities: a model of informed intermediation," *Review of Financial Studies* 18, 1-35.
13. Dang, T.V., Gorton, G. and B. Holmstrom, 2012, "Ignorance, debt and financial crises," working paper, Yale University.
14. Gorton, G. and G. Ordonez, 2012, "Collateral crises," NBER working paper 17771.
15. Geanakoplos, J., 2010, "The leverage cycle," Cowles Foundation paper 1304.

16. Chang, B., 2012, "Adverse selection and liquidity distortion," Working paper, University of Wisconsin-Madison.
17. Guerrieri, V. and R. Shimer, 2012, "Dynamic adverse selection: a theory of illiquidity, fire sales, and flight to quality," working paper, University of Chicago.
18. Kurlat, P., 2012, "Lemons markets and the transmission of aggregate shocks," Working paper, Stanford University.
19. Dusha, E., 2012, "Reputation in directed search with adverse selection," in doctoral dissertation: Essays on Intermediated Corruption, Financial Frictions and Economic Development. University of Toronto.
20. Delacroix, A. and S. Shi, 2013, "Pricing and signaling with frictions," *Journal of Economic Theory* 148, 1301–1332.
21. Shi, S., 1997, "A divisible search model of fiat money," *Econometrica* 65, 75-102.
22. Lagos, R., Wright, R., 2005. "A unified framework for monetary theory and policy analysis," *Journal of Political Economy* 113, 463-84.
23. Kocherlakota, N., 1998, "Money is memory," *Journal of Economic Theory* 81, 232-251.
24. Shi, S., 2006, "Viewpoint: a microfoundation of monetary economics," *Canadian Journal of Economics* 39, 643-688.
25. Menzies, G., Shi, S. and H. Sun, 2013, "A monetary theory with non-degenerate distributions," *Journal of Economic Theory* (forthcoming).
26. Freeman, S., 1996, "The payments system, liquidity, and rediscounting," *American Economic Review* 86, 1126-1138.
27. Williamson, S., 2003, "Payments systems and monetary policy," *Journal of Monetary Economics* 50, 475-495.

II. Sticky Prices

1. Klenow, P. and O. Kryvtsov, 2008, "State-Dependent or Time-Dependent Pricing: Does It Matter for Recent US Inflation?" *Quarterly Journal of Economics* 123, 863-904.
2. Nakamura, E. and J. Steinsson, 2008, "Five Facts about Prices: A Reevaluation of Menu Cost Models," *Quarterly Journal of Economics* 123, 1415-1464.
3. Dotsey, M., King, R. and A. Wolman, 1999, "State-dependent pricing and the general equilibrium dynamics of money and output," *Quarterly Journal of Economics* 114, 655-690.

4. Golosov, M. and R.E. Lucas, Jr., 2007, "Menu costs and Phillips curves," *Journal of Political Economy* 115, 171-199.
5. Midrigan, V., 2008, "Menu costs, multi-product firms, and aggregate fluctuations," manuscript, New York University.
6. Kehoe, P.J. and V. Midrigan, 2010, "Prices Are Sticky After All," Working paper, Federal Reserve Bank of Minneapolis.
7. Guimaraes, B. and K.D. Sheedy, 2009, "Sales and Monetary Policy," Working paper, London School of Economics.
8. Varian, H., 1980, "A Model of Sales," *American Economic Review* 70, 651-659.
9. Sobel, J., 1984, "The Timing of Sales," *Review of Economic Studies* 51, 353-368.
10. Shi, S., 2012, "Customer relationship and sales," working paper, University of Toronto.
11. Albrecht, J., Postel-Vinay, F. and S. Vroman, 2013, "An equilibrium search model of sales," *International Economic Review*.