

Topics in Money and Finance

This course investigates a range of classic questions in monetary economics, mainly from the perspective of modern finance but embracing a range of methodological approaches (historical and institutional, theoretical and empirical).

Format: The course will be run as a lecture-seminar hybrid, with a typical week involving a lecture on Monday and student presentations on Wednesday, both of which will involve also classroom discussion.

Grading: Two presentations will each be worth 25% of the final grade. The remaining 50% will come from a 10-15 page final paper on an approved topic.

Prerequisites: Intermediate Microeconomics, and Intermediate Macroeconomics. It will be helpful, but not essential, if students also have some background in either money or finance, either practical experience (such as an internship) or coursework (such as Economics of Money and Banking, or Economics of Finance).

Limited Enrollment: To facilitate discussion, enrollment will be limited to 25. Students who have taken Economics of Money and Banking will be given priority.

Required Readings: The required readings for the course will all be available on Courseworks. Typically, there will be two required readings per week.

Course Outline

Jan 25-27 **Origins of Central Bank Policy**

Thornton, Henry (1802) An Enquiry into the Nature and Effects of the Paper Credit of Great Britain.

Wood, Elmer (1939) English Theories of Central Banking Control: 1810-1858.

Tooke, Thomas (1844) An Inquiry into the Currency Principle

Fetter, Frank W. (1965) The Development of British monetary orthodoxy, 1797-1875.

*Bagehot, Walter (1873) Lombard Street, A Description of the Money Market.

Wicksell, Knut (1898) Interest and Prices, A Study of the Causes Regulating the Value of Money.

Hawtrey, Ralph (1919) Currency and Credit

*Tenth Annual Report of the Federal Reserve Board Covering Operations for the Year 1923.

Feb 1-3 **Economic Development and Money**

Skaggs, Neil T. (2003) "H.D. McLeod and the Origins of the Theory of Finance in Economic Development" History of Political Economy

Schumpeter, Joseph (1934 [1912]) The Theory of Economic Development

*Moulton, Harold (1918) "Commercial Banking and Capital Formation" Journal of Political Economy

Lewis, W. Arthur (1954) "Economic Development with Unlimited Supplies of Labor" Manchester School

[Radcliffe] Committee on the Working of the Monetary System (1959) Report

*Gurley, John G. and Edward S. Shaw (1960) Money in a Theory of Finance

Goldsmith, Raymond W. (1969) Financial Structure and Development

Shaw, Edward (1973) Financial Deepening in Economic Development.

Feb 8-10 Government Finance and Money

Mitchell, Wesley Clair (1903) A History of the Greenbacks.

*Young, Allyn A. (1924) Ch. 31-34 in “Commerce: The Marketplace of the World”

Barber, William J. (1985) From New Era to New Deal: Herbert Hoover, the economists, and American economic policy, 1921-1933.

Barber, William J. (1996) Designs within Disorder: Franklin D. Roosevelt, the economists, and the shaping of American economic policy, 1933-1945.

*Keynes, John Maynard (1940) How to Pay for the War.

Hansen, Alvin (1943) “How Shall we Deal with the Public Debt?” NYU Institute on Postwar Reconstruction II No. 7

Bremner, Robert P. (2004) Chairman of the Fed: William McChesney Martin Jr. and the creation of the modern American financial system.

Feb 15-17 International

Keynes, John Maynard (1913) Indian Currency and Finance.

*Keynes, John Maynard (1923) A Tract on Monetary Reform.

Graham, Benjamin (1944) World Commodities and World Currency

*Bloomfield, Arthur (1959) Monetary Policy under the International Gold Standard, 1880-1914

Fischer, Stanley (1999) "On the Need for an International Lender of Last Resort," Journal of Economic Perspectives 13 (4).

Feb 22-24 Monetary Walrasianism

Hicks, John (1935) "A Suggestion for Simplifying the Theory of Money" Economica

Marschak, Jacob (1938) "Money and the Theory of Assets" Econometrica

Modigliani, Franco (1944) "Liquidity Preference and the Theory of Interest and Money,"
Econometrica

Patinkin, Don (1956) Money, Interest and Prices: An Integration of Monetary and Value Theory.

Tobin, James (1958) "Liquidity Preference as Behavior Towards Risk" Review of Economic Studies 25(2)

Hahn, Frank (1965) "Some Problems of Proving the Existence of Equilibrium in a Monetary Economy"

*Tobin, James (1969) "A general equilibrium approach to monetary theory" Journal of Money, Credit, and Banking 1(1)

*Ando, Albert and Franco Modigliani (1969) "Econometric Analysis of Stabilization Policies" American Economic Review 59(2)

Louca, Francisco (2007) The Years of High Econometrics: a short history of the generation that reinvented economics.

Mar 1-3 Monetarism

*Simons, Henry C. (1934) A Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy

Hart, Albert (1935) "The 'Chicago Plan' of Banking Reform" Review of Economic Studies 2(2)

*Friedman, Milton (1948) "A Monetary and Fiscal Framework for Economic Stability" American Economic Review

Friedman, Milton (1956) Studies in the Quantity Theory of Money

Friedman, Milton (1969) "The Optimum Quantity of Money"

Mehrling, P. (1995) "Note on the Optimum Quantity of Money" Journal of Mathematical Economics 24

Brunner, Karl and Allan H. Meltzer (1993) Money and the Economy, Issues in Monetary Analysis

Rabin, Alan A. (2004) Monetary Theory

Mar 8-10 Financial Instability

*Sprague, O.M.W. (1910) History of Crises under the National Banking System

Hawtrey, Ralph. (1932) The Art of Central Banking

Fisher, Irving. (1933) “The Debt-Deflation Theory of Great Depressions” Econometrica 1 No. 3: 337-57

Keynes, John Maynard (1936) “The State of Long-term Expectations” in The General Theory of Employment, Interest and Money

*Minsky, Hyman (1982) Can ‘It’ Happen Again?: Essays on instability and finance.

Kindleberger, Charles (1978) Manias, Panics, and Crashes: a History of Financial Crises

Mar 17-19 No Class, Spring Break

Mar 22-23 Risk and Uncertainty

Keynes, J. M. (1921) A Treatise on Probability

Knight, Frank H. (1921) Risk, Uncertainty, and Profit

*Hicks, John (1931) “The Theory of Uncertainty and Profit” Economica

*Arrow, Kenneth (1951) “Alternative approaches to the theory of choice in risk-taking situations” Econometrica

Cootner, Paul (1964) The Random Character of Stock Market Prices

Mandelbrot, Benoit. (1963) “The Variation of Certain Speculative Prices” Journal of Business 36 (No. 4, October): 394-419.

Mar 29-31 Building Blocks

Poitras, Geoffrey, ed. (2006) Pioneers of Financial Economics: Contributions Prior to Irving Fisher, Vol. I. Elgar

Baskin, Jonathan and Paul Miranti (1999) A History of Corporate Finance

*Fisher, Irving (1906) The Nature of Capital and Income

Graham, Benjamin (1934) Security Analysis: Principles and Technique

Williams, John Burr (1938) The Theory of Investment Value

Modigliani, Franco and Merton Miller (1958) "The Cost of Capital, Corporation Finance and the Theory of Investment" American Economic Review

*Markowitz, Harry M. (1959) Portfolio Selection: Efficient Diversification of Investments

Bernstein, Peter L. (1992) Capital Ideas: The Improbable Origins of Modern Wall Street

Apr 5-7 Efficiency

*Kaldor, Nicholas (1939) "Speculation and Economic Stability" Review of Economic Studies

*Friedman, Milton (1953) "The Case for Flexible Exchange Rates" Essays in Positive Economics

Hart, Oliver and David Kreps (1986) "Price Destabilizing Speculation" Journal of Political Economy 94(5)

Davis and Etheridge (2006) Louis Bachelier's Theory of Speculation [1900]: The Origins of Modern Finance Princeton.

Taqqu, Murad (2001) "Bachelier and his times: a conversation with Bernard Bru." Finance and Stochastics 5, 3-32.

Fama, Eugene (1970) "Efficient Capital Markets: A Review of Theory and Empirical Work" Journal of Finance 25 (No. 2, May): 383-417.

Mandelbrot, Benoit (1971) "When Can Price be Arbitrated Efficiently? A Limit to the Validity of the Random Walk and Martingale Model" Review of Economics and Statistics 53 (No. 3, August): 225-236.

Black, Fischer (1986) "Noise" Journal of Finance

Apr 12-14 CAPM Equilibrium

Treynor, Jack L. (1962) "Toward a Theory of Market Value of Risky Assets"

Sharpe, William (1964) "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk" Journal of Finance

*Lintner, John (1965) "The Valuation of Risk Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budgets" Review of Economics and Statistics

Mossin, Jan (1966) "Equilibrium in a Capital Asset Market" Econometrica 34: 768-783

Merton, Robert C. (1973) "An Intertemporal Capital Asset Pricing Model" Econometrica 41 (September): 867-887

*Ross, Stephen A. (1976) "The Arbitrage Theory of Capital Asset Pricing" Journal of Economic Theory 13: 341-360

Breeden, Douglas T. (1979) "An Intertemporal Asset Pricing Model with Stochastic Consumption and Investment Opportunities" Journal of Financial Economics 7: 265-296

French, Craig (2003) "The Treynor Capital Asset Pricing Model" Journal of Investment Management 1 (No. 2): 60-72

Mehrling, Perry (2005) Fischer Black and the Revolutionary Idea of Finance Wiley

April 19-21 Derivatives

Thorp, Edward O. and Sheen T. Kassouf (1967) Beat the Market; a scientific stock market system Random House

Merton, Robert C. (1973) "Theory of Rational Option Pricing" Bell Journal of Economics and Management Science

*Black, Fischer and Myron Scholes (1973) "The Pricing of Options and Corporate Liabilities" Journal of Political Economy

Black, Fischer (1976) "The Pricing of Commodity Contracts" Journal of Financial Economics 3: 167-79

Cox, John, Stephen Ross, and Mark Rubinstein (1979) "Option Pricing: A Simplified Approach" Journal of Financial Economics 7: 229-264

MacKenzie, Donald (2006) An Engine, Not a Camera; How Financial Models Shape Markets, MIT

*Bookstaber, Richard (2007) A Demon of Our Own Design; Markets, Hedge Funds, and the Perils of Financial Innovation Wiley

Apr 26-28 Student Papers

May 3 Student Papers