ECONOMICS 235A: MONETARY THEORY

Instructor: Kevin D. Salyer
Office Hours: Monday and Wednesday, 11AM-noon or walk-in.
Suggested Text: Monetary Theory and Policy by Carl Walsh.
Course Description and Requirements: The course will consist of a survey of general equilibrium monetary models and their application to issues in monetary theory. Grading will be based upon performance of class presentations, homework and a short paper. The articles denoted by a (*) are required reading; most are available on the class web site. We will be using Matlab and Dynare to numerically solve some of the models so please review your notes on Matlab from 200E. You should download Dynare from the website (find via Google) and install this on your machine; it will be available in the Department’s computer lab.

Note: In addition to the readings below, I will also distribute a set of articles that will be used for class presentations (by you). I will have this list ready by the second week of class.

Reading List

I. Some Technical Issues and Techniques:


II. Issues in Monetary Theory - Generating a Demand for Money


*** Read Chapters 2 and 3 in Walsh ***

III. STATIONARY EQUILIBRIUM AND BUBBLES


IV. THE WELFARE COSTS OF INFLATION


V. STATIONARY EQUILIBRIUM IN STOCHASTIC SETTINGS - DYNAMIC NEUTRALITY

MIUF models


CIA models


VI. THE FISHER RELATION, THE TERM STRUCTURE OF INTEREST RATES, AND ASSET PRICING


VII. MONEY AND PRODUCTION – THE ROLE OF THE INFLATION TAX


VIII. MODELING THE LIQUIDITY EFFECT OF MONEY


IX. AGENCY COSTS AND FINANCIAL INTERMEDIATION

38. Walsh, Chapter 7.


X. RATIONAL INATTENTION AND ROBUST CONTROL

Robustness and Risk Sensitivity


51. Luo, Yulei and Eric R. Young (2009), "Risk-sensitive Consumption and Savings under Rational Inattention," mimeo, University of Virginia.


Rational Inattention (Information-Processing Constraints) and Infrequent Adjustment


57. Luo, Yulei and Eric R. Young (2009), "Risk-sensitive Consumption and Savings under Rational Inattention," mimeo, University of Virginia.


XI. MONETARY POLICY

61. (*) Walsh, Chapters 5, 10, 11.


63. (*) Gertler, M., “Notes on Sticky Price Models.”


