



ECONOMICS 817: Monetary Theory and Policy

Fall 2015

W 7:20 – 10:00 pm

Robinson Hall A349

Prof. Lawrence H. White Mason Hall D116

Office Hours Weds 4-5 pm and by prior arrangement

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Prerequisites: ECON 715 and 816, or permission of instructor.

Overview: This is a specialized course in the theory and history of monetary institutions and policy regimes. We will critically explore:

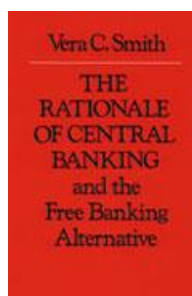
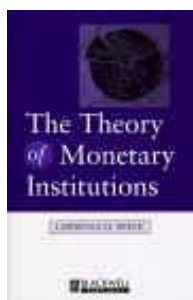
- how monetary institutions (barter, commodity money, bank-issued money, fiat money) have evolved and performed under market and non-market influences
- the rationales offered for government involvement in money and banking
- how a central bank in a discretionary fiat regime might be expected to behave
- how some alternative regimes (commodity standard, free banking, currency board, rule-bound fiat standard, private fiat standard, “separated” unit of account) have worked or might work.

Requirements:

| | exam date / due date | grading weight |
|-----------------------|-------------------------|----------------|
| 1 st exam | Oct. 5 | 18% |
| 1 st paper | Oct. 19 | 18% |
| 2 nd exam | Nov. 16 | 18% |
| 2 nd paper | Dec. 7 | 18% |
| Final exam | Dec. 14, 7:30– 10:15 pm | 18% |
| Class participation | | 10% |

1st and 2nd exam dates are fairly firm. The final exam date is fixed by GMU. The final exam will be cumulative.

The following policies are stated as a matter of record. (1) The content of your papers must be exclusively your own work, free from plagiarism, and not submitted to any other course. You are responsible for knowing proper attribution practices (that is, how to avoid plagiarism). See the guidelines at <http://www.indiana.edu/~wts/pamphlets/plagiarism.shtml>. (2) Late papers will be penalized as follows: an "A" paper received on due date Wednesday becomes an "A-" on Thursday, "B+" on Friday, "B" on Saturday, etc. (3) Plagiarism or cheating is grounds for an "F" on the paper or exam. (4) Failure to take an exam at the scheduled time will result in an exam score of zero (absent a valid medical excuse or certified final exam conflict). You may not take an exam at a different time from the rest of the class. Please don't ask. (5) No one will be permitted to leave an exam before 30 minutes have elapsed, or to enter after anyone has left. (6) Performance on these exams and papers, and participation in class discussions, will be the only bases for grading. No other "extra credit" will be assigned or accepted.



Required books:

- Lawrence H. White, *The Theory of Monetary Institutions* (Oxford: Blackwell, 1999) -- "TMI" below.
- Vera C. Smith, *The Rationale of Central Banking* (Indianapolis: Liberty Press, 1990) -- "Smith" below.
<http://www.libertyfund.org/details.asp?displayID=1729>

Additional readings online or through Blackboard.

Sequence of Topics, Exams, and Readings

This syllabus is a work in progress. Expect additional readings to be added.

*Readings marked by an asterisk are recommended but optional.

A. Money, the Market, and the State

*The Economist (31 Dec. 2011), "Marginal revolutionaries: The crisis and the blogosphere have opened mainstream economics up to new attack,"

<http://www.economist.com/node/21542174> [If that link hits a paywall, Google the title.]

1. The Emergence of Money

TMI, ch. 1; Smith, chs. 3, 5

Carl Menger, "On the Origin of Money," *Economic Journal* 2 (June 1892),

<http://www.jstor.org/stable/2956146> (JSTOR via GMU server)

Stephen Williamson and Randall Wright, "New Monetarist Economics: Models" (2010),

<https://www.minneapolisfed.org/research/sr/sr443.pdf>

*Charles A. E. Goodhart, "The two concepts of money: implications for the analysis of optimal currency areas," *European Journal of Political Economy* 14 (August 1998), pp. 407-32,

<http://www.sciencedirect.com/mutex.gmu.edu/science/article/pii/S0176268098000159>

*L. Randall Wray, "The Credit Money, State Money, and Endogenous Money Approaches" (2004),

<http://cas.umkc.edu/econ/economics/faculty/wray/papers/CREDIT&STATE%20MONEY%20JOIE%20revised.doc>

*Salter, Alexander William, and William J. Luther, "Synthesizing State and Spontaneous Order Theories of Money," *Advances in Austrian Economics* 18 (2014).

<http://www.emeraldinsight.com/doi/pdfplus/10.1108/S1529-213420140000018008>

*Lawrence H. White, "Does a Superior Monetary Standard Spontaneously Emerge?,"

Journal des Economistes 12 (Jun-Sept. 2002). Scan posted to Blackboard.

2. **Commodity Money**

TMI, ch. 2

Lawrence H. White, "Introduction" to White, ed., *The History of Gold and Silver* (2000). Scan posted to Blackboard.

*George Selgin, "Monopoly, Competition, and Great Britain's 'Big Problem of Small Change' (2007), <http://www.terry.uga.edu/~selgin/documents/Monopoly3.pdf>

Milton Friedman, "Commodity Reserve Currency," *Journal of Political Economy* 59 (June 1951), pp. 203-232. www.jstor.org/stable/1826435

Lawrence H. White, "The Merits and Feasibility of Returning to a Commodity Standard," *Journal of Financial Stability* (2015). Scan posted to Blackboard.

3. **Money Issue by Competing Banks**

TMI, ch. 3; Smith, chs. 7, *8-10, 12

George Selgin and Lawrence H. White, "In Defense of Fiduciary Media," *Review of Austrian Economics* 9 (1996), http://mises.org/journals/rae/pdf/rae9_2_5.pdf

*Jörg Guido Hülsmann, "Has Fractional-Reserve Banking Really Passed the Market Test?" *Independent Review* 7 (2003).
<http://www.independent.org/publications/tir/article.asp?a=90>

*Lawrence H. White, "Accounting for Fractional-Reserve Banknotes and Deposits," *Independent Review* 7 (2003).
<http://www.independent.org/publications/tir/article.asp?a=91>

Ignacio Briones and Hugh Rockoff, "Do Economists Reach a Conclusion on Free-Banking Episodes?," *Econ Journal Watch* 2 (Aug. 2005).
<http://econjwatch.org/articles/do-economists-reach-a-conclusion-on-free-banking-episodes>

4. The Evolution, Rationales, and Performance of Central Banks

TMI, ch. 4; Smith, chs. 1-2, *4, *6, 11

George Selgin, William D. Lastrapes, and Lawrence H. White, "Has the Fed Been a Failure?," *Journal of Macroeconomics* 34 (2012), 569-96. Via GMU library:

<http://www.sciencedirect.com/mutex.gmu.edu/science/journal/01640704/34/3>

Committee on International Economic Policy and Reform, "Rethinking Central Banking" (Brookings Institution, Sept. 2011),

<http://www.brookings.edu/~media/Research/Files/Reports/2011/9/ciepr%20central%20banking/Rethinking%20Central%20Banking.PDF>

5. Should Government Play a Role in Money?

TMI, ch. 5

Milton Friedman, "The Optimum Quantity of Money," in Friedman, *The Optimum Quantity of Money and Other Essays*, ch. 1. Scan posted to Blackboard.

Casey B. Mulligan and Xavier X. Sala-i-Martin, "The Optimum Quantity of Money: Theory and Evidence," *Journal of Money, Credit and Banking* [JMCB] 29 (Nov., 1997), Part 2, pp. 687-715. <http://www.jstor.org/stable/2953658>

Narayana R. Kocherlakota, "Optimal Monetary Policy: What We Know and What We Don't Know," *Minneapolis Fed Quarterly Review* 29 (Oct. 2005), <http://www.minneapolisfed.org/research/QR/QR2912.pdf>

► *First exam*

6. Should Government Play a Role in Banking?

TMI, ch. 6

Douglas W. Diamond and Philip H. Dybvig, "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy* 91 (June 1983), pp. 401-19.

<http://www.jstor.org/stable/1837095>

*Ricardo de O. Cavalcanti, "Inside-Money Theory after Diamond and Dybvig," *Federal Reserve Bank of Richmond Economic Quarterly* 96 (First Quarter 2010), pp. 59-82.

http://www.richmondfed.org/publications/research/economic_quarterly/2010/q1/pdf/cavalcanti.pdf

Lawrence H. White and Donald J. Boudreaux, "Is Nonprice Competition in Currency Inefficient?," *JMCB* 30 (May 1998), pp. 252-60. <http://www.jstor.org/stable/2601212>

Scott Sumner, "Is Nonprice Competition in Currency Inefficient?: Comment," *JMCB* 32 (Feb. 2000), pp. 146-149. <http://www.jstor.org/stable/2601097>

White and Boudreaux, "Is Nonprice Competition in Currency Inefficient?: Reply," *JMCB* 32 (Feb. 2000), pp. 150-153. <http://www.jstor.org/stable/2601098>

*Douglas W. Diamond and Raghuram G. Rajan, "Illiquid Banks, Financial Stability, and Interest Rate Policy" (2012), <http://faculty.chicagobooth.edu/raghuram.rajan/research/papers/Illiquidity%20and%20interest%20rate%20policy.pdf>

B. Models of Central Bank Behavior

7. Seignorage and Bureaucracy

TMI, chs. 7, 8

*Reid W. Click, "Seigniorage in a Cross-Section of Countries," *JMCB* 30 (May 1998), pp. 154-71, <http://www.jstor.org/stable/2601207>

Christopher A. Sims, "Paper Money," *American Economic Review* 103 (April 2013), pp. 563–584, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.103.2.563>

8. Political Business Cycles

TMI, ch. 9

William D. Nordhaus, Alberto Alesina, and Charles L. Schultze, "Alternative Approaches to the Political Business Cycle," *Brookings Papers on Economic Activity* (1989, No. 2), pp. 1-68. <http://www.jstor.org/stable/2534461>

9. Discretion and Time-inconsistency

TMI, ch. 10

Finn E. Kydland and Edward C. Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy* 85 (June 1977), pp. 473-492. <http://www.jstor.org/stable/1830193>

John B. Taylor, "Monetary Policy Rules Work and Discretion Doesn't: A Tale of Two Eras" (2012), <http://www.stanford.edu/~johntayl/JMCB%20lecture.pdf>

► *Second exam*

C. Alternative Monetary Regimes

10. Monetary Rules for (or in place of) a Central Bank

TMI, ch. 11

Steve H. Hanke and Kurt Schuler, "A Monetary Constitution for Argentina: Rules for Dollarization," *Cato Journal* 18 (Winter 1999), pp. 405-19, <http://object.cato.org/sites/cato.org/files/serials/files/cato-journal/1999/1/cj18n3-11.pdf>

Scott Sumner, "The Case for Nominal GDP Targeting" (October 2012), http://mercatus.org/sites/default/files/NGDP_Sumner_v-10-copy.pdf

*John Cochrane, "A Few Things the Fed Has Done Right," *Wall St. Journal* (21 Aug. 2014), <http://online.wsj.com/articles/john-h-cochrane-a-few-things-the-fed-has-done-right-1408662715>

11. Private Fiat-type Money and Crypto-currencies

TMI, ch. 12

F. A. Hayek, *Denationalisation of Money*, 2nd ed. (London: Institute of Economic Affairs, 1977), <http://www.iea.org.uk/record.jsp?type=book&ID=431>

George Selgin, "Synthetic Commodity Money" (April 2013), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2000118

William J. Luther and Lawrence H. White, "Can bitcoin become a major currency?," *Cayman Financial Review* (August 2014), <http://www.compasscayman.com/cfr/2014/08/08/Can-bitcoin-become-a-major-currency-/>

*Kevin Dowd, *New Private Monies: A Bit-Part Player?* (London: Institute of Economic Affairs, 2014), pp. 38-88. <http://www.iea.org.uk/publications/research/new-private-monies-a-bit-part-player>

Lawrence H. White, "The Market for Cryptocurrencies," *Cato Journal* 35, No. 2 (Spring/Summer 2015), pp. 383-402. <http://object.cato.org/sites/cato.org/files/serials/files/cato-journal/2015/5/cj-v35n2-13.pdf>

12. The "New Monetary Economics" and Sophisticated Payments without Base Money

TMI, ch. 13

Malte Krueger, "Money: A Market Microstructure Approach," *JMCB* 44 (Sept. 2012), pp. 1245–1258.

<http://onlinelibrary.wiley.com/doi/10.1111/j.1538-4616.2012.00530.x/full>

► **Final exam:** Wed. Dec. 16, 7:30-10:15 pm