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 28-30 Origins of the Fed

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

*Timberlake, R.H. (1984) "The Central Banking role of clearinghouse associations," Journal of Money, Credit, and Banking 16(1)

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

Mehrling, Perry (2002) "Economists and the Fed: Beginnings," Journal of Economic Perspectives (Fall)

Meltzer, Allan H. (2003) A History of the Federal Reserve, Vol. 1: 1913-1951.

Wood, John H. (2005) A History of Central Banking in Great Britain and the United States.

*Wicker, E. 2005. The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed.

Feb 4-6 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.

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

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

Feb 11-13 Government Finance and Money

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

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.

Woodford, Michael (1998) "Public Debt and the Price Level," mimeo.

Feb 18-20 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

Hilferding, Rudolf (1910) Finance Capital: a study of the latest phase of capitalist development

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

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

Sayers, Richard Sidney (1960) Modern Banking, Ch. 10

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.

McKinnon, Ronald (1993) The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy.

Feb 25-27 Monetary Walrasianism

Hicks, John (1935) "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)

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

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

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

Mar 3-5 Monetarism

*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.

Laidler, David (2005) "Milton Friedman and the Evolution of Macroeconomics"

Mar 10-12 Financial Instability

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

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)

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.

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

Eichengreen, B. (2002) Financial Crises and What to Do About Them

Toporowski, Jan (2005) Theories of Financial Disturbance, An Examination of Critical Theories of Finance from Adam Smith to the Present Day

Bruner, Robert F. and Sean D. Carr (2007) The Panic of 1907, Lessons Learned from the Market's Perfect Storm Wiley

Mar 17-19 No Class, Spring Break

Mar 24-26 Risk and Uncertainty

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

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

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.

*Mandelbrot, Benoit, and Richard L. Hudson. 2004. The (Mis)behavior of Markets: A Fractal View of Risk, Ruin, and Reward. Basic

*McGoun, Elton. 2006. "The History of Quantitative Risk Measurement" in Poitras and Jovanovic, Pioneers of Financial Economics Vol. II.

Mar 31-Apr 2 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 7-9 Efficiency

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

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

Samuelson, Paul A. 1965. "Proof that properly Anticipated prices fluctuate randomly." Industrial Management Review.

Mandelbrot, Benoit. 1966. "Forecasts of Future Prices, Unbiased Markets, and 'Martingale' Models." Journal of Business 39 (No. 1, Supplement): 242-255.

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 Arbitraged Efficiently? A Limit to the Validity of the Random Walk and Martingale Model" Review of Economics and Statistics 53 (No. 3, August): 225-236.

Samuelson, Paul A. 1973 "Proof that Properly Discounted Present Value of Assets Vibrate Randomly" Bell Journal of Economics, vol. 4, pp 369-374.

Bouleau, Nicolas and A. Thomas. 2003. Financial Markets and Martingales, Observations on Science and Speculation Springer

Apr 14-16 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 21-23 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" JPE

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

Apr 28-30 Student Papers

Apr 30 Student Papers