

Search-Based Monetary Theory

Expanded Reading List

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In this class we will study the most recent developments in the field of search-based monetary theory. What follows is a long list of papers related to the topics that will be covered in this course. Obviously, we will discuss explicitly only a fraction of this material.

Background, History of Thought

McCandless, A. Rolnick and W. Weber (1993) "What is Money?" and "How Money Evolved in the United States," Chapters 2 and 3 in *Money, Banking and Economic Activity*, typescript.

Adam Smith (1776) "Of the Origin and Use of Money," Book I, Chapter IV, in *An Inquiry Into the Nature and Causes of The Wealth of Nations*; reprinted in Starr (1990).

W. Stanley Jevons (1875) *Money and the Mechanism of Exchange*, London: Appleton, Chapters I-III; reprinted in Starr (1990).

Karl Menger (1892) "On the Origin of Money," *Economic Journal* 2, 239-255; reprinted in Starr (1990).

Knut Wicksell (1911) *Lectures on Political Economy, Vol. 2, Money*, translated by E. Classen, 2nd ed., New York: Kelley, 1967.

John R. Hicks (1935) "A Suggestion for Simplifying the Theory of Money," *Economica* 2, 1-19; reprinted in Starr (1990).

Robert Clower (1965) "A Reconsideration of the Microfoundations of Monetary Economics," *Western Economic Journal* 6, 1-8.

Armen A. Alchian (1977) "Why Money?" *Journal of Money, Credit, and Banking* 9, 133-140.

R. A. Radford (1945) "The Economic Organization of a P.O.W. Camp," *Economica*, Nov. 1945.

Joseph M. Ostroy and Ross M. Starr (1990) "The Transaction Role of Money," in *Handbook of Monetary Economics*, edited by B. Friedman and F. Hahn, Amsterdam: North-Holland.

Neil Wallace (1997) "Absence-of-Double-Coincidence Models of Money: A Progress Report," *Federal Reserve Bank of Minneapolis Quarterly Review*, Winter 1997.

Neil Wallace (1999) "A Dictum in Monetary Theory," *Federal Reserve Bank of Minneapolis Quarterly Review*, Winter 1999.

Wallace N. "Whither Monetary Economics?" *International Economic Review*, 42: 847-869, November 2001.

Peter Rupert et al. (2000) "The Search-Theoretic Approach to Monetary Economics: A Primer," *Fed. Res. Bank of Cleveland Review* 36, 10-28.

Models of Monetary Economics:

<http://www.minneapolisfed.org/research/books/models/index.html>

1st Generation: Commodity-Money Medium of Exchange Models

Nobuhiro Kiyotaki and Randall Wright (1989) "On Money as a Medium of Exchange," *Journal of Political Economy* 97, 927-954.

Timothy J. Kehoe, Nobuhiro Kiyotaki and Randall Wright (1993) "More on Money as a Medium of Exchange," *Economic Theory* 3, 297-314.

Randall Wright (1995) "Search, Evolution, and Money," *Journal of Economic Dynamics and Control* 19, 181-206.

S. Rao Aiyagari and Neil Wallace (1991) "Existence of Steady States with Positive Consumption in the Kiyotaki-Wright Model," *Review of Economic Studies* 58, 901-16.

S. Rao Aiyagari and Neil Wallace (1992) "Fiat Money in the Kiyotaki-Wright Model," *Economic Theory* 2, 447-464.

P.M. Brown (1996) "Experimental Evidence on Money as a Medium of Exchange," *Journal of Economic Dynamics and Control* 20, 583-600.

John Duffy and Jack Ochs (1996) "Emergence of Money as a Medium of Exchange: An Experimental Study," manuscript.

John Duffy and Jack Ochs (1996) "Fiat Money as a Medium of Exchange:

Experimental Evidence," manuscript.

Peter Diamond (1982) "Aggregate Demand Management in Search Equilibrium," *Journal of Political Economy* 90, 881-894.

Peter Diamond (1984) "Money in Search Equilibrium," *Econometrica* 52, 1-20.

Nobuhiro Kiyotaki and Randall Wright (1991) "A Contribution to the Pure Theory of Money," *Journal of Economic Theory* 53, 215-235.

Nobuhiro Kiyotaki and Randall Wright (1993) "A Search-Theoretic Approach to Monetary Economics," *American Economic Review* 83, 63-77.

Shouyong Shi (1997) "Money and Specialization," *Economic Theory* 10, 99-113.

Randall Wright (1993) "A Note on Sunspot Equilibria in Search Models of Fiat Money," *Journal of Economic Theory* 64, 234-241.

Randall Wright (1999) "A Note on Asymmetric and Mixed-Strategy Equilibria in the Search-Theoretic Model of Fiat Money," *Economic Theory* 14, 463-471.

Kenneth Burdett et al. (1995) "Buyers and Sellers: Should I Stay or Should I Go?" *American Economic Review* 85, Papers and Proceedings, 281-286.

Rachel Kranton (1996) "Reciprocal Exchange: A Self-Sustaining System" *American Economic Review* 86, 830-851.

Neil Wallace (1997) "Absence-of-Double-Coincidence Models of Money: A Progress Report," Federal Reserve Bank of Minneapolis Quarterly Review, Winter 1997.

2nd Generation: Search and Bargaining Models

Ariel Rubinstein and Asher Wolinsky (1985) "Equilibrium in a Market with Sequential Bargaining," *Econometrica* 53, 133-50.

Douglas Gale (1987) "Limit Theorems for Model with Sequential Bargaining," *Journal of Economic Theory* 43, 20-54.

Martin J. Osborne and Ariel Rubinstein (1990) *Bargaining and Markets*, Academic Press.

Dale T. Mortensen and Randall Wright (1996) "Competitive Pricing and Efficiency in Search Equilibrium," *International Economic Review* 43 (2002), 1-20.

Ariel Rubinstein and Asher Wolinsky (1987) "Middelmen," *Quarterly Journal of Economics* 102, 581-593.

Shouyong Shi (1995) "Money and Prices: A Model of Search and Bargaining," *Journal of Economic Theory* 67, 467-496.

Alberto Trejos and Randall Wright (1995) "Search, Bargaining, Money and Prices," *Journal of Political Economy* 103, 118-141.

Melvyn Coles and Randall Wright (1996) "A Dynamic Equilibrium Model of Search, Bargaining, and Money," *Journal of Economic Theory* 78, 32-54.

Alexander Berentsen, Miguel Molico and Randall Wright (1998) "Indivisibilities, Lotteries and Monetary Exchange," *Journal of Economic Theory*.

Peter Ruper, Martin Schindler, and Randall Wright (2001) "Generalized Search Theoretic Model of Monetary Exchange," *Journal of Monetary Economics* , 48, 605-622.

S. Rao Aiyagari and Neil Wallace (1997) "Government Transactions Policy, the Medium of Exchange, and Welfare" *Journal of Economic Theory*, 74, 1-18.

Yiting Li and Randall Wright (1998) "Policy Analysis in Search-Based Models of Money," *Journal of Economic Theory* 81, 290-313.

S. Rao Aiyagari, Neil Wallace and Randall Wright (1996) "Coexistence of Money and Interest-Bearing Securities," *Journal of Monetary Economics* 37, 397-420.

Joseph Ritter (1995) "The Transition from Barter to Fiat Money," *American Economic Review* 85, 134-149.

Peter Diamond (1990) "Pairwise Credit in Search Equilibrium," *Quarterly Journal of Economics* 105, 285-319.

Shouyong Shi (1995) "Money and Credit in a Search Model with Divisible Commodities," *Review of Economic Studies* 63, 627-652.

Edward Green and Warren Weber (1996) "Will the New \$100 Bill Decrease Counterfeiting," *Federal Reserve Bank of Minneapolis Quarterly Review* 19, 3-10.

Kenneth Burdett, Alberto Trejos and Randall Wright (1996) "Cigarette Money," manuscript.

Neil Wallace and Ruilin Zhou (1997) "A Model of a Currency Shortage," *Journal of Monetary Economics* 40, 555-572.

Neil Wallace (2000) "A Model of the Liquidity Structure Based on Asset Indivisibility," *Journal of Monetary Economics* 45, 55-68.

Neil Wallace (2000) "Short Run and Long Run Effects of Changes in Money in a Random Matching Model," *Journal of Political Economy* 105, 1293-1307.

A. Deviatov and Neil Wallace (2001) "Another Example in which Lump-Sum Money Creation is Beneficial," *Advances in Macroeconomics* 1, Article 1.

Neil Wallace (2001) "Whither Monetary Economics," *IER* 42, 847-870.

R. Cavalcanti et. al. (1996) "Private Money and Reserve Management in a Random Matching Model," *Journal of Political Economy*

Gabriel Camera (1999) "Money, Search, and Costly Matchmaking," *Macroeconomic Theory* 4, 289-323.

Gabriel Camera (2001) "Dirty Money," *Journal of Monetary Economics* 47, 377-415.

Gabriel Camera (2001) "Search, Dealers and the Terms of Trade," *Review of Economic Dynamics* 4, 680-694.

Money and Memory

Narayana Kocherlakota (1998) "Money is Memory," *Journal of Economic Theory* 81, 232-251.

Narayana Kocherlakota (1998) "The Two Money Theorem," *International Economic Review* forthcoming.

Narayana Kocherlakota and Neil Wallace (1998) "Optimal Allocations with Incomplete Record Keeping and No Commitment," *Journal of Economic Theory* 81, 272-289.

Ricardo Cavalcanti and Neil Wallace (1999) "A Model of Private Bank-Note Issue," *Review of Economic Dynamics*, 2, 104-136

Ricardo Cavalcanti and Neil Wallace (1999) "Inside and Outside Money as Alternative Media of Exchange," *Journal of Money, Credit and Banking*, 31, 443-457

Luis Araujo (2001) "Social Norms and Money," *Journal of Monetary Economics*.

Guilherme Carmona (2001) "Social Norms and Monetary Trading," manuscript.

3rd Generation: Distributional Models

Edward Green and Ruilin Zhou (1998) "A Rudimentary Model of Search with Divisible Money and Prices," *Journal of Economic Theory* 81, 252-271

Ruilin Zhou (1999) "Individual and Aggregate Real Balances in a Random Matching Model," *International Economic Review* 40, 1009-1038.

Ruilin Zhou (1999) "Does Commodity Money Eliminate the Indeterminacy of Equilibria?" manuscript.

Ruilin Zhou (1999) "Money and the Law of One Price: The Case without Discounting" manuscript.

Gabriel Camera and Dean Corbae (1999) "Monetary Patterns of Exchange with Search," *International Economic Review*, 40.

Miguel Molico (1996) "The Distribution of Money and Prices in Search Equilibrium," manuscript.

Guillaume Rocheteau (1998) "Optimal Quantity of Money and Trade Frictions" manuscript.

Neil Wallace (1996) "Questions Concerning Rate-of-Return Dominance and Indeterminacy in Absence-of-Double-Coincidence Models of Money," manuscript.

Alexander Taber and Neil Wallace (1999) "The Divisibility of Money and Welfare in a Matching Model," *International Economic Review*, 40.

Shouyong Shi (1997) "A Divisible Search Model of Fiat Money," *Econometrica* 65, 75-102.

Bernard Rauch (2000) "A Divisible Search Model of Fiat Money: A Comment," *Econometrica* 68, 149-156.

Shouyong Shi (1998) "Search for a Monetary Propagation Mechanism," *Journal of Economic Theory* 81, 314-352.

Shouyong Shi (1999) "Search, Inflation and Capital Accumulation," *Journal of Monetary Economics* 44, 81-103.

Corbae, D., Temzelides, T., and Wright, R. 2003. "Directed Matching and Monetary Exchange," *Econometrica* 71, 731-756.

Models of Monetary Economics II, the next generation:

<http://www.minneapolisfed.org/research/events/models/agenda.cfm>

Wallace N. "A Commodity-Money Refinement in Matching Models," (with Tao Zhu), *Journal of Economic Theory*, 117 (2004) 246-258.

Wallace N. "Modeling Small Change: A Review Article," *Journal of Monetary Economics*, 50 (2003), pp. 1391-1400.

Wallace N. "Output and Price Level Effects of Monetary Uncertainty in a Matching Model," (with B. Katzman and J. Kennan), *Journal of Economic Theory*, 108 (2003), pp. 217-255.

Wallace N. "Central-Bank Interest-Rate Control in a Cashless, Arrow-Debreu Economy"

G. Rocheteau and R. Wright "Money in Search Equilibrium, in Competitive Equilibrium, and in Competitive Search Equilibrium

S. B. Aruoba and R. Wright "Search, Money and Capital: A Neoclassical Dichotomy," , August 2003.

R. Lagos and R. Wright "A Unified Framework for Monetary Theory and Policy Analysis," September 2002.

Koepl, T., C. Monnet and T. Temzelides (2008) "A Dynamic Model of the Payment System,"

4th Generation: Search and Walrasian Markets

Lagos, R. (2005) "Liquidity and Asset Prices in an Exchange Economy,"

Lagos, R. and G. Rocheteau (2005) "Inflation, Output and Welfare," *International Economic Review* 46, 495—522.

Lagos, R. and R. Wright (2005) "A Unified Framework for Monetary Theory and Policy Evaluation," *Journal of Political Economy* 113, 463-484.

Berentsen, A., Menzio, G. and Wright, R. 2009. "Inflation and Unemployment in the Long Run," *American Economic Review*.

Williamson, S. 1986. "Costly Monitoring, Financial Intermediation and Equilibrium Credit Rationing," *Journal of Monetary Economics* 18, 159-179.

Williamson, S. 2009. "Liquidity, Financial Intermediation, and Monetary Policy in a New Monetarist Model," working paper, Washington University in St. Louis.

Williamson, S. and Wright, R. 2010. "New Monetarist Economics: Models," forthcoming in *Handbook of Monetary Economics*, Second Edition, edited by Benjamin Friedman and Michael Woodford.