

Syllabus: Advanced Laboratory on Monetary Theory and Policy

Instructor: David Andolfatto, Federal Reserve Bank of St. Louis

Dates: June 6-14, 2022 (20 hours, 3 credits)

Course Outline: This course begins with an introduction to the theory of money and its relation to credit. It then develops, in stages, a basic theoretical framework to study government money and debt, with application to real-world issues. Other topics, such as cryptocurrencies, banking, and financial fragility are also discussed.

Prerequisites: A course in basic microeconomic theory, knowledge of algebra and basic calculus.

Grading: The course grade will be based on a single exam to be taken at the completion of the course.

Lecture 1: The Theory of Monetary Exchange. Barter vs. money. Direct vs. indirect exchange. Arrow-Debreu securities. Financial market frictions. Money as a way to coordinate economic activity when commitment and record-keeping is limited.

Readings: [Slide deck 1](#).

Lecture 2: Money as Social Credit. Sustaining cooperative outcomes when commitment is limited. Social credit systems. Why money is not used to coordinate activity in small groups. Why money is necessary in a community of strangers (large groups). An introduction to dynamic methods.

Readings: [An Introduction to Money and Credit](#).

Lecture 3: The Basic OLG Model. Dynamic inefficiency. A role for government securities. Commodity money.

Readings: [Slide deck 2](#); [Slide deck 3](#).

Lecture 4: Sustainable Deficits and Debt in the OLG Model.

Readings: [Slide deck 4](#); [Sustainable Deficits](#); [Is the U.S. Budget Deficit Sustainable? Does the National Debt Matter?](#)

Lecture 5: Money and Capital in the OLG Model.

Readings: [Slide deck 5](#). [A Model of U.S. Monetary Policy Before and After the Great Recession](#); [Understanding Lowflation](#). [A Simple Model to Help Guide Monetary and Fiscal Policy](#).

Lecture 6: Some Unpleasant Monetarist Arithmetic. Ricardian vs. Non-Ricardian fiscal policy. Implications for monetary policy.

Readings: [Is it time for some unpleasant monetarist arithmetic?](#); Manuscript on UMA (to be made available); [The Interaction Between Monetary and Fiscal Policy](#); [Understanding Inflation as a Joint Monetary-Fiscal Phenomenon](#).

Lecture 7: International Monetary Systems. Fixed vs. flexible exchange rate regimes. Exchange rate indeterminacy.

Readings: [Slide deck 5](#).

Lecture 8: Cryptocurrencies and Central Bank Digital Currency.

Readings: [Slide deck 6](#). [Blockchain: What it is, What it does, and Why you Probably Don't Need One](#). [My Perspective on the Bitcoin Project \(Collected Works\)](#).

Lecture 9: Financial Fragility. Diamond and Dybvig model. Modeling the payments system.

Readings: [Slide deck 6](#); [Slide deck 7](#). [Why the Fed Should Create a Standing Repo Facility](#). [The Fed and a Standing Repo Facility: A Follow-Up](#). [Why Do Markets Freeze?](#)

Lecture 10. Money and banking.

Readings: [Reconciling orthodox and heterodox views on money and banking](#).