

EC7320, Monetary Economics

Readings for Lecture on 9/10/2010 and the following lecture

1. Restricted Market Participation Models:

- Joydeep Bhattacharya, Mark G. Guzman and Karl Shell, “[Price Level Volatility: A Simple Model of Money Taxes and Sunspots](#),” *Journal of Economic Theory*, Vol 81(2), 1988, 401-430.
- Aditya Goenka and Karl Shell, “[When Sunspots Don't Matter](#),” *Economic Theory*, Vol. 9(1), January 1997, 169-178.

Then we will briefly discuss the set up in the following models as a way of generating restricted market participation in other contexts (but will not go through the detailed analysis of the papers as they use techniques developed so far in the course.)

- Aditya Goenka, “[Fiscal Rules and Extrinsic Uncertainty](#),” *Economic Theory*, 4(3), 1994, 401-416.
- Aditya Goenka, “[Rationing and Sunspot Equilibria](#),” *Journal of Economic Theory*, 64(2), 1994, 424-442.
- Aditya Goenka and Stefano Matta, “[Manipulation of Endowments and Sunspot Equilibria](#),” *Economic Theory*, 36(2), 2008, 267-282.

2. Incomplete Markets:

We will cover incomplete markets not in the historical order of the development of the literature, and start with real assets, and then look at financial assets.

Real Assets:

- Aditya Goenka and Christophe Prechac, “[Stabilizing Sunspots](#),” *Journal of Mathematical Economics*, 42(4-5), 2006, 544-555.
- Andreu Mas-Collel, “[Three Remarks on Sunspots and Asset Redundancy](#),” in P. Dasgupta, D. Gale, O. Hart and E. Maskin (Eds.) *Economic Analysis of Markets and Games: Essays in Honor of Frank Hahn*, Cambridge, MA: MIT Press.

The following paper revisits necessity of multiplicity.

- Piero Gottardi and Atsushi Kajii, “[The Structure of Sunspot Equilibria: The Role of Multiplicity](#),” *Review of Economic Studies*, 66(3), 1999, 713-732.

The following paper generalizes Goenka and Prechac (2006).

- Atsushi Kajii, “Welfare Gains and Losses in Sunspot Equilibria,” *Japanese Economic Review*, 58(3), 2007, 329-344.

The following papers give examples where there can be sunspot equilibria even when there is uniqueness in the spot market.

- Thorsten Hens and Beate Pilgrim, “Sunspot Equilibria and the Transfer Paradox”, *Economic Theory*, 24(3), 2004, 583-602.
- Marco Huesch, “Sunspots do matter: a simple disproof of Mas-Colell.” *Economics Bulletin*, Vol. 5, No. 19 pp. 1-20

Financial Assets:

- David Cass, “Sunspot and Incomplete Financial Markets: The Leading Example,” in G. Feiwel (Ed.) *The Economics of Imperfect Competition and Unemployment: Joan Robinson and Beyond*, 1989, London: Macmillan.
- David Cass, “Sunspots and Incomplete Financial Markets: The General Case,” *Economic Theory*, 2, 1982, 341-358.

The literature on financial assets is large and discusses the structure of equilibria, and more readings will be added as necessary.

Options:

- Gaetano Antinolfi and Todd Keister, “Options and Sunspots in a Simple Monetary Economy,” *Economic Theory*, 11(2), 1998, 295-315.