

Syllabus

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Course: Topics in Macroeconomics - Liquidity

Professor:

2025 FIRST SEMESTER

COURSE OUTLINE

Liquidity is an elusive term in macroeconomics, amenable to various interpretations. In this course, we focus on two notions of liquidity, with a particular emphasis on one of the notions.

First, liquidity captures instances in which frictions that make credit imperfect lead to the need for payment instruments, including cash, bonds, securities, collateral, and capital. We are particularly careful about the frictions leading to the need for such instruments and to how monetary policy should be implemented in an economy in which the liquidity of different instruments is endogenously determined. I am also going to address the role of digital currencies, particularly Central Bank Digital Currencies.

Second, liquidity captures instances in which agents are hit by preference shocks that require immediate consumption, so they need to devise ways in which insurance against such shocks can be provided. Banks and other financial intermediaries naturally emerge as insurance providers, as described in the seminal work of Diamond and Dybvig (1983). I consider part of the literature spurred by their work.

Lastly, time allowing, I will briefly talk about bubbles, a phenomenon in which liquidity and speculative considerations interact with fundamental values in the determination of the price of assets.

METHODOLOGY

The class will be based on lectures. The material will consist in articles from general and specialized journals in economics, as well as recent working papers.

PROGRAM

LECTURE 1	MONEY
LECTURE 2	MONEY AND REAL ASSETS
LECTURE 3	MONEY AND BONDS
LECTURE 4	MONEY AND REAL ASSETS II
LECTURE 5	THE TRANSMISSION OF MONETARY POLICY
LECTURE 6	THE LIMITS OF MONETARY ECONOMICS
LECTURE 7	MONEY AND FINANCIAL INTERMEDIARIES
LECTURE 8	CENTRAL BANK DIGITAL CURRENCIES
LECTURE 9	BANKS
LECTURE 10	BANKS AND FRAGILITY - CONTAGION
LECTURE 11	BANKS AND FRAGILITY - INTERVENTION
LECTURE 12	BANKS AND FRAGILITY - DEBT RUNS
LECTURE 13	BUBBLES
LECTURE 14	PRESENTATIONS

BIBLIOGRAPHY

Main Reference

Liquidity: Part I

- Geromichalos, Herrenbrueck and Lee, Asset Safety versus Asset Liquidity, JPE (2023)
- Gu, Mattesini and Wright. "Money and Credit Redux" ECTA (2016)
- Lester, Postlewaite and Wright, "Information, Liquidity, Asset Prices and Monetary Policy", RES (2012)
- Lagos and Wright, "A Unified Approach to Monetary Theory and Policy Analysis", JPE (2005)
- Lagos and Zhang, "The Limits of Onetary Economics, ECTA (2022)
- Li, Rocheteau and Weill, "Liquidity and Threat of Fraudulent Assets", JPE (2012)
- Rocheteau, Wright and Zhang, "Corporate Finance and Monetary Policy", AER (2018)

- Williamson, "Liquidity, Fin. Intermediation, Monetary Policy in New Monetarist Model", AER (2012)
- Williamson, Central Bank Digital Currency: Welfare and Policy Implications," JPE (2022)
- Keister and Sanches, "Should Central Banks Issue Digital Currency?" RES (2022)
- Chiu et al, "Market Power and CBDC: Theory and Quantitative Assessment", JPE (2023)

Liquidity: Part II

- Allen and Gale, financial Contagion, JPE (2000)
- Barlevy, "Bubbles and Fools", Federal Reserve Bank of Chicago (2015)
- Doblas Madrid, "A Robust Model of Bubbles with Multidimensional Uncertainty", ECTA (2012)
- Donaldson and Piacentino, "Money Runs", JME (2022)
- Ennis and Keister, "Bank Runs and Institutions: The Perils of Intervention", AER (2009)

ARTICLES

Please see Bibliography

GRADING

The students will also be asked to either write and present a short paper with an original idea, or write a report and make a presentation of the corresponding paper.

PROFESSOR – EMAILS