

Lucas (1996)

Lucas, Robert E. Jr.

Nobel lecture: Monetary neutrality

Journal of Political Economy , **104(4)**, (Aug 1996), pp. 661-682.

Abstract:

n/a

[full text](#) available from JStor

Lucas (1980)

Lucas, Robert E. Jr.

Two illustrations of the quantity theory of money

American Economic Review , **70(5)**, (Dec 1980), pp. 1005-1114.

Abstract:

n/a

[full text](#) available from JStor

McCandless and Weber (1995)

McCandless, George T. and Weber, Warren

Some monetary facts

Federal Reserve Bank of Minneapolis Quarterly Review, **19(3)**, (Summer 1995), pp. 2-11.

Abstract:

This article describes three long-run monetary facts derived by examining data for 110 countries over a 30-year period, using three definitions of a country's money supply and two subsamples of countries: (1) Growth rates of the money supply and the general price level are highly correlated for all three money definitions, for the full sample of countries, and for both subsamples. (2) The growth rates of money and real output are not correlated, except for a subsample of countries in the Organisation for Economic Co-operation and Development, where these growth rates are positively correlated. (3) The rate of inflation and the growth rate of real output are essentially uncorrelated.

[full text](#) available from the Minneapolis Fed

Barro (1995)

Robert Barro

Inflation and economic growth

Bank of England Quarterly Bulletin, **35**, (May 1995), pp. 166-176.

Abstract:

Data for around 100 countries from 1960 to 1990 are used to assess the effects of inflation on economic performance. If a number of country characteristics are held constant, then regression results indicate that the impact effects from an increase in average inflation by 10 percentage points per year are a reduction of the growth rate of real per capita GDP by 0.2-0.3 percentage points per year and a decrease in the ratio of investment to GDP by 0.4-0.6 percentage points. Since the statistical procedures use plausible instruments for inflation, there is some reason to believe that these relations reflect causal influences from inflation to growth and investment. However, statistically significant results emerge only when high-inflation experiences are included in the sample. Although the adverse influence of inflation on growth looks small, the long-term effects on standards of living are substantial. For example, a shift in monetary policy that raises the long-term average inflation rate by 10 percentage points per year is estimated to lower the level of real GDP after 30 years by 4-7%, more than enough to justify a strong interest in price stability.

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Bullard and Keating (1996)

Bullard James and Keating John W.

The long-run relationship between inflation and output in postwar economies

Journal of Monetary Economics, **36(3)**, (1996), pp. 477-496.

Abstract:

We investigate the relationship between inflation and real output in a large sample of postwar economies. Our methodology is to use a structural vector autoregression to estimate the response of the level of real output to permanent inflation shocks separately for each country. We find that a permanent shock to inflation is not associated with a permanent movement in the level of real output for most countries in our sample. The main exceptions are certain low inflation countries, in which permanent inflation shocks permanently increase the level of output. We also find that permanent inflation shocks do not permanently influence real output growth rates in our sample.

[full text](#) available from Nort-Holland

Khan and Senhadji (2001)

Khan, Moshin S. and Senhadji, Abdelhak S.

Threshold effects in the relationship between inflation and growth

Journal of Monetary Economics, **36(3)**, (Dec 1996), pp. 477-496.

Abstract:

This paper re-examines the issue of the existence of threshold effects in the relationship between inflation and growth, using new econometric techniques that provide appropriate procedures for estimation and inference. The threshold level of inflation above which

inflation significantly slows growth is estimated at 1-3 percent for industrial countries and 11-12 percent for developing countries. The negative and significant relationship between inflation and growth, for inflation rates above the threshold level, is quite robust with respect to the estimation method, perturbations in the location of the threshold level, the exclusion of high-inflation observations, data frequency, and alternative specifications..

[full text](#) available from the IMF

Gavin and Kydland (1999)

Gavin, William T. and Kydland, Finn E.

Endogenous Money Supply and the Business Cycle

Review of Economic Dynamics, **2(2)**, (Apr 1999), pp. 347-369.

Abstract:

This paper documents changes in the cyclical behavior of nominal data series that appear after 1979:Q3 when the Federal Reserve implemented a policy to lower the inflation rate. Such changes were not apparent in real variables. A business cycle model with impulses to technology and a role for fiat money is used to show how alternative money supply rules are expected to affect observed business cycle facts. In this model, changes in the money supply rules have almost no effect on the cyclical behavior of real variables, yet have a significant impact on the cyclical nature of nominal variables.

[full text](#) available from Elsevier Science Direct

King and Plosser (1984)

King, Robert G. and Plosser, Charles I.

Money, credit and prices in a real business cycle

American Economic Review, **74(3)**, (Jun 1984), pp. 363-380.

Abstract:

n/a

[full text](#) available from JStor

Williamson (1987)

Williamson, Steve

Costly monitoring, loan contracts and equilibrium credit rationing

Quarterly Journal of Economics, **102(1)**, (Feb 1987), pp. 135-146.

Abstract:

n/a

[full text](#) available from JStor

Azariadis and Smith (1998)

Azariadis, Costas and Smith, Bruce D.

Financial intermediation and regime switching in business cycles

American Economic Review, **88(3)**, (Jun 1998), pp. 516-536.

Abstract:

The authors study a one-sector growth model where capital investment is credit financed and there is an adverse selection problem in credit markets. The presence of adverse selection creates an indeterminacy of equilibrium. Many equilibria display permanent fluctuations characterized by transitions between Walrasian regimes and regimes of credit rationing. Cyclical contractions involve declines in real interest rates, increases in credit rationing, and withdrawals of savings from banks. For some configurations of parameters, all equilibria display cyclical fluctuations. The authors provide sufficient conditions for deterministic cycles consisting of m periods of expansion followed by n periods of contraction to exist.

[full text](#) available from JStor

Freeman and Kydland(2000)

Freeman, Scott and Kydland, Finn

Monetary aggregates and output

American Economic Review, **90(5)**, (Dec 2000), pp. 1125-1135.

Abstract:

We ask whether the following observations may result from the endogenously determined fluctuations of the money multiplier rather than a causal influence of money on output: (i) M1 is positively correlated with real output; (ii) the money multiplier and deposit-to-currency ratio is positively correlated with output; (iii) the price level is negatively correlated with output; (iv) the correlation of M1 with contemporaneous prices is substantially weaker than the correlation of M1 with real output; (v) correlations among real variables are essentially unchanged under different monetary policy regimes; and (vi) real money balances are smoother than money demand equations would predict.

[full text](#) available from JStor

Cooley and Nam (1998)

Cooley, Thomas F. and Nam, Kwanghee

Asymmetric information, financial intermediation and business cycles

Economic Theory, **12(3)**, (Nov 1998), pp. 599-620.

Abstract:

This incorporates a debt contracting problem with asymmetric information into a standard monetary business cycle model. The model incorporates a limited participation assumption in order to induce a liquidity effect of monetary shocks and propagate monetary disturbances. The model economy shows that a positive money supply shock generates a decrease in nominal interest rates and an increase in output level. Asymmetric information amplifies the response of capital to the money supply shock, but does not propagate them in other ways. When the monetary shock is an innovation in reserve requirements, it induces a persistent response of the economy..

[full text](#) available from SpringerLink

Diaz-Gimenez, Prescott, Fitzgerald and Alvarez (1992)

Diaz-Gimenez, Javier and Prescott, Edward C., Fitzgerald, Terry, and Alvarez, Fernando
Banking in computable general equilibrium economies

Journal of Economic Dynamics and Control, **16(3-4)**, (Jul 1992), pp. 533-559.

or

Federal Reserve Bank of Minneapolis Research Department Staff Report 153.

Abstract:

In this paper we develop a computable general equilibrium economy that models the banking sector explicitly. Banks intermediate between households and between the household sector and the government sector. Households borrow from banks to finance their purchases of houses and they lend to banks to save for retirement. Banks pool households' savings and they purchase interest-bearing government debt and non-interest-bearing reserves. We use this structure to answer two sets of questions: one normative in nature that evaluates the welfare costs of alternative monetary and tax policies, and one positive in nature that studies the real effects of following a procyclical interest-rate policy rule.

[full text](#) available from the Minneapolis Fed

Alvarez and Fitzgerald (1992)

Alvarez, Fernando, and Fitzgerald, Terry

Banking in computable general equilibrium economies: Technical Appendices I and II

Federal Reserve Bank of Minneapolis Research Department Staff Report 155.

Abstract:

[full text](#) available from the Minneapolis Fed

Cole and Ohanian (2002)

Cole, Harold, L. and Ohanian, Lee E.

Shrinking Money: The demand for money and the non-neutrality of money

Journal of Monetary Economics, **49(4)**, (May 2002), pp. 653-686.

Abstract:

We evaluate the macroeconomic implications of post-World War II money demand changes in two business cycle models: the limited participation model and the sticky price model. The sticky price model is invariant to changes in money demands. However, the limited participation model predicts the effect of a money shock on output rose by 100 percent between 1952 and 1980, and subsequently fell 65 percent. This prediction is hard to reconcile with evidence that suggests the effects of monetary shocks are stable over time, and suggests that goods market imperfections, rather than asset market imperfections, may be the driving force behind postwar U.S. monetary nonneutrality.

Lagos and Wright (2004)

Lagos, Ricardo and Wright, Randall

A unified framework for monetary theory and policy analysis

Federal Reserve Bank of Minneapolis Research Department Staff Report 346.

Abstract:

Search-theoretic models of monetary exchange are based on explicit descriptions of the frictions that make money essential. However, tractable versions of these models typically need strong assumptions that make them ill-suited for studying monetary policy. We propose a framework based on explicit micro foundations within which macro policy can be analyzed. The model is both analytically tractable and amenable to quantitative analysis. We demonstrate this by using it to estimate the welfare cost of inflation. We find much higher costs than the previous literature: our model predicts that going from 10% to 0% inflation can be worth between 3% and 5% of consumption.

[full text](#) available from the Minneapolis Fed

Chari, Kehoe and McGrattan (2005)

Chari, V. V., Kehoe, Patrick J. and McGrattan, Ellen R.

Business cycle accounting

Federal Reserve Bank of Minneapolis Research Department Staff Report #328.

Abstract:

We propose a simple method to help researchers develop quantitative models of economic fluctuations. The method rests on the insight that many models are equivalent to a prototype growth model with time-varying wedges which resemble productivity, labor and capital income taxes, and government consumption. Wedges corresponding to these variables—efficiency, labor, investment, and government consumption wedges—are measured with data and then fed back into the model in order to assess the fraction of various fluctuations accounted for by the wedges. For the United States, applications to

the Great Depression and the 1982 recession reveal that models with frictions which work as investment wedges are not a promising way to study business cycles. For the Depression, the efficiency and labor wedges together account for essentially all of the fluctuations; for the 1982 recession, only the efficiency wedge matters. In neither period do the other wedges play a significant role.