Available online at www.sciencedirect.com
ScienceDirect
Journal of Economic Theory 142 (2008) 1–4
JOURNAL OF Economic Theory
www.elsevier.com/locate/jet

Introduction to monetary and macro economics

Narayana Kocherlakota[a, b, *], Randall Wright[c]

[a] *Department of Economics, University of Minnesota, 271 19th Avenue South, Minneapolis, MN 55455, USA*
[b] *Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, Minneapolis, MN 55401, USA*
[c] *Department of Economics, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104, USA*

Received 30 May 2008; final version received 30 May 2008
Available online 12 June 2008

Abstract

This introduces the symposium on monetary and macro economics.

JEL classification: E00

Keywords: Monetary economics; Macro economics; Neil Wallace

We dedicate this symposium issue to Professor Neil Wallace of the Pennsylvania State University. Neil's contributions to economic science are marked at once by their breadth, their substance, and their depth. Our hope is that this issue reflects these features of Neil's work. The papers cover a wide range of important topics, including monetary economics, banking, general equilibrium theory, and heterogeneity. However, they are unified by their approach: in all of them, the analysis is remarkably explicit about the basic foundational elements of the economic environment under study.

Several of the papers contribute to monetary economics. Araujo and Camargo [3] assess the ability of reputational concerns to regulate the overissue problem. Cavalcanti and Erosa [6] study optimal monetary policies in economies with heterogeneous agents when those policies and the resultant equilibria are allowed to be non-stationary. Julien et al. [10] explore the impact of different bargaining protocols on the properties of monetary equilibria. These three papers use the monetary framework set forth by Shi [17] and Trejos and Wright [18]. In contrast, Lagos and Rocheteau [13] and Zhu [21] build on the more recent model of Lagos and Wright [14]. Zhu examines the consequences of integrating this setup with the overlapping generations model of money popularized by Wallace [19]. Lagos and Rocheteau [13] assess the implications of allowing

* Corresponding author.
E-mail addresses: nkocher@econ.umn.edu (N. Kocherlakota), rwright@econ.upenn.edu (R. Wright).

0022-0531/$ - see front matter © 2008 Elsevier Inc. All rights reserved.
doi:10.1016/j.jet.2008.05.004

Neil Wallace

both money and capital to be used as media of exchange in [14], an issue Wallace studied in overlapping generations models in [19].

Four of the papers analyze open problems in banking. Ales et al. [1] construct a novel model along the lines of [17,18] to rationalize the puzzling behavior of banknote discounts in the United States during the 19th century. Working within the paradigm of Diamond and Dybvig [8] Andolfatto and Nosal [2] show that modelling banks as explicit utility-maximizing agents makes the existence of bank runs even more puzzling, while Fujiki et al. [9] provide foundational frameworks for the design of optimal systems of debt settlement. Koeppl et al. [12] also study optimal settlement systems, using a framework closer to the model in [14], but emphasizing the mechanism design approach to money and payments suggested in Wallace [20].

Three of the papers extend existing general equilibrium theory. Kocherlakota [11] constructs a class of model economies with (only) infinite-lived agents in which rational bubbles emerge in equilibrium. Basak et al. [5] is an analysis of multiplicity of competitive equilibria in financial markets with constrained portfolios. Rocheteau et al. [16] show how equilibria in economies with quasi-linear preferences are essentially isomorphic to sunspot equilibria in economies with nonconvexities, and exploit this to provide a new microfoundation for some recent work in monetary theory.

The final three papers are about the dynamic properties of model economies with heterogeneous agents. Chatterjee et al. [7] analyze a model of unsecured consumer debt with finitely lived agents. Madeira and Townsend [15] show how the nature of information-sharing can influence the dynamics of group formation and breakdown. Azzimonti et al. [4] discuss how commitment and its lack influence the nature of tax policies in a heterogeneous agent economy.

The papers follow in alphabetical order by the first letter of the first author's last name.

References

[1] L. Ales, F. Carapella, P. Maziero, W. Weber, A model of banknote discounts, J. Econ. Theory 142 (2008) 5–27.
[2] D. Andolfatto, E. Nosal, Bank incentives, contract design and bank runs, J. Econ. Theory 142 (2008) 28–47.
[3] L. Araujo, B. Camargo, Endogenous supply of fiat money, J. Econ. Theory 142 (2008) 48–72.
[4] M. Azzimonti, E. de Francisco, P. Krusell, Production subsidies and redistribution, J. Econ. Theory 142 (2008) 73–99.
[5] S. Basak, D. Cass, J.-M. Licari, A. Pavlova, Multiplicity in general financial equilibrium with portfolio constraints, J. Econ. Theory 142 (2008) 100–127.
[6] R. Cavalcanti, A. Erosa, Efficient propagation of shocks and the optimal return on money, J. Econ. Theory 142 (2008) 128–148.
[7] S. Chatterjee, D. Corbae, V. Rios-Rull, A finite-life private-information theory of unsecured consumer debt, J. Econ. Theory 142 (2008) 149–177.
[8] D.W. Diamond, P. Dybvig, Bank runs, deposit insurance, and liquidity, J. Polit. Econ. 91 (1983) 401–419.
[9] H. Fujiki, E.-J. Green, A. Yamazaki, Incentive efficient risk sharing in a settlement mechanism, J. Econ. Theory 142 (2008) 178–195.
[10] B. Julien, J. Kennes, I. King, Bidding for money, J. Econ. Theory 142 (2008) 196–217.
[11] N. Kocherlakota, Injecting rational bubbles, J. Econ. Theory 142 (2008) 218–232.
[12] T. Koeppl, C. Monnet, T. Temzelides, A dynamic model of settlement, J. Econ. Theory 142 (2008) 233–246.
[13] R. Lagos, G. Rocheteau, Money and capital as competing media of exchange, J. Econ. Theory 142 (2008) 247–258.
[14] R. Lagos, R. Wright, A unified framework for monetary theory and policy analysis, J. Polit. Econ. 113 (2005) 463–484.
[15] G.-A. Madeira, R.-M. Townsend, Endogenous groups and dynamic selection in mechanism design, J. Econ. Theory 142 (2008) 259–293.
[16] G. Rocheteau, P. Rupert, K. Shell, R. Wright, General equilibrium with nonconvexities and money, J. Econ. Theory 142 (2008) 294–317.
[17] S. Shi, Money and prices: a model of search and bargaining, J. Econ. Theory 67 (1995) 467–496.

[18] A. Trejos, R. Wright, Search, bargaining, money, and prices, J. Polit. Econ. 103 (1995) 118–141.
[19] N. Wallace, The overlappng generations model of fiat money, in: J. Kareken, N. Wallace (Eds.), Models of Monetary Economics, Federal Reserve Bank of Minneapolis, 1980.
[20] N. Wallace, Whither monetary economics?, Int. Econ. Rev. 42 (2001) 847–869.
[21] T. Zhu, An overlapping-generations model with search, J. Econ. Theory 142 (2008) 318–331.