

# Banking and Financial Panics

## Reading List for Econ 8701

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### 1 Background readings

1. Sprague, O.M.W. 1910. *History of Crises under the National Banking System*
2. Friedman, Milton and Schwartz, Anna. 1963. Chapter 7 in *A Monetary History of the United States, 1867-1960*
3. Fisher, Irving. 1933. The debt-deflation theory of great depressions. *Econometrica* 1: 337-57.
4. Brunnermeier, Markus K. 2009. Deciphering the 2007-08 liquidity and credit crunch. *Journal of Economic Perspectives* (forthcoming, on website)
5. Bernanke, Ben S. 2009. The crisis and the policy response (on website)
6. Chari, V.V. 2009. Restoring capitalism to Wall Street: How to save banks and the rest of us without spending trillions (on website)

### 2 Models of Bank Runs

1. Ennis, Huberto M. and Keister, Todd. 2010. On the fundamental reasons for bank fragility. *Federal Reserve Bank of Richmond Economic Quarterly* 96: 33-58.
2. \*Diamond, Douglas W. and Dybvig, Phillip H. 1983. Bank runs, deposit insurance, and liquidity. *JPE* 91: 401-419.
3. Bryant, John. 1980. A model of reserves, bank runs, and deposit insurance. *Journal of Banking and Finance* 4: 335-344.
4. \*Jacklin, Charles J. 1987. Demand deposits, trading restrictions, and risk sharing. In *Contractual arrangements for intertemporal trade*, ed. Edward Prescott and Neil Wallace. 26-47. *Minnesota Studies in Economics*, vol 1.

5. Wallace, Neil. 1988. Another attempt to explain an illiquid banking system: The Diamond-Dybvig model with sequential service taken seriously. *QR*: 3-16.
6. Wallace, Neil. 1990. A banking model in which partial suspension is best. *QR*: 11-23.
7. Wallace, Neil. 1996. Narrow banking meets the Diamond-Dybvig model. *QR*: 3-13.
8. Chari, V.V. and Jagannathan, Ravi. 1988. Banking panics, information, and rational expectations equilibrium. *Journal of Finance*: 749-761.
9. Jacklin, Charles J. and Bhattacharya, Sudipto. 1988. Distinguishing panics and information-based bank runs: Welfare and policy implications. *JPE* 96:568-592.
10. \*Green, Edward J. and Lin, Ping. 2000. Diamond and Dybvig's classic theory of financial intermediation: What's missing?. *QR*: 3-13.
11. \*Peck, James and Shell, Karl. 2003. Equilibrium bank runs. *JPE* 111: 103-123.
12. Martin, Antoine. 2006. Liquidity provision vs. deposit insurance: preventing bank panics without moral hazard. *ET* 28: 197-211.  
Green, Edward J. 2010. Bailouts. *Federal Reserve Bank of Richmond Economic Quarterly* 96: 11-32.
13. Andolfatto, David and Nosal, Edward. 2008 Bank incentives, contract design and bank runs. *JET* 142: 28-47.
14. \*Morris, Stephen and Shin, Hyun Song. 2000. Rethinking multiple equilibria in macroeconomic modeling. *NBER Macroeconomics Annual*, Vol. 15, pp. 139-161
15. \*Atkeson, Andrew. 2000. Rethinking multiple equilibria in macroeconomic modeling: comment. *NBER Macroeconomics Annual*, Vol. 15, pp. 162-171
16. Goldstein, Itay and Pauzner, Ady. 2006. Demand-deposit contracts and the probability of bank runs. *JFinance*: 1293-1327.

### 3 Financial Panics and Collateral Constraints

1. Stiglitz, Joseph E. and Weiss, Andrew Weiss. 1981. Credit rationing in markets with imperfect information. *AER*. 71: 393-410.
2. Bernanke, Ben and Gertler, Mark. 1989. Agency costs, net worth, and business fluctuations. *AER* 14-31.

3. Bernanke, Ben and Gertler, Mark. 1990. Financial fragility and economic performance. *QJE* 87-114.
4. Holmstrom, Bengt and Tirole, Jean. 1997. Financial Intermediation, Loanable Funds, and the Real Sector. *QJE* 112:663-691.
5. Kiyotaki, Nobuhiro and Moore, John. 1997. Credit cycles. *JPE* 105: 211-248.
6. \*Kiyotaki, Nobuhiro and Moore, John. 2008. Liquidity, business cycles, and monetary policy. (manuscript – see conference website)
7. Geanakoplos, John. 2003. Liquidity, default, and crashes: Endogenous contracts in equilibrium. In *Advances in Economics and Econometrics: Theory and Applications, Eighth World Congress* vol 2. 170-205.
8. Geanakoplos, John and Fostel, Anna. 2008. Leverage cycles and the anxious economy. *AER* 98: 1121-1244.
9. Farhi, Emmanuel; Golosov, Mikhail; and Tsyvinski, Aleh. 2008. A theory of liquidity and regulation of financial intermediation. manuscript <http://econ-www.mit.edu/files/2569>.

## 4 Contagion

1. †Allen, Franklin and Gale, Douglas. 2000. Financial contagion. *JPE* 108: 1-33.
2. Allen, Franklin and Gale, Douglas. 2004. Financial Intermediaries and Markets. *Econometrica* 72:1023-1061.
3. Kiyotaki, Nobuhiro and Moore, John. 2002. Balance-Sheet Contagion. *AER* 92(2): 46-50.
4. Rochet, Jean-Charles and Tirole, Jean. 1996. Interbank lending and systemic risk. *JMCB* 28: 733-762.
5. Carapella, Francesca. 2008. Banking panics and deflation in dynamic general equilibrium (manuscript)

\* Paper to be covered in class by WW

† Paper to be possibly presented by students