

Monetary and Fiscal Policy Issues in General Equilibrium

Leopold von Thadden

Johannes Gutenberg Universität Mainz
(Visiting Professor, Chair of Macroeconomics)
and
European Central Bank (*on leave*)

GSEFM, Field Course
Summer Term 2012

Motivation of the topic:

- Hopefully straightforward, since the crisis has reached in many countries a stage where pressing policy challenges require a thorough understanding of interactions between monetary and fiscal policies

What can you expect from this field course?

- The course gives a comprehensive **introduction on how to model monetary and fiscal policy issues from a general equilibrium perspective**, covering both positive and normative aspects
- It will use (and where needed explain) concepts and techniques of advanced macroeconomics

The course consists of 2 parts:

Part I: Modelling Money in General Equilibrium: a Primer
(*Focus:* How to model money in general equilibrium? Welfare cost of inflation, How to go from the neoclassical growth model to a small monetary DSGE-model?)

Part II: Money and Public Finance:
Selected Issues from a Positive and a Normative Perspective
(*Focus:* Budgetary arithmetic, Sargent/Wallace-agenda, Fiscal theory of the price level, Ramsey-optimal monetary and fiscal policies, Strategic interactions in monetary unions)

Course book: *Carl Walsh, Monetary Theory and Policy, MIT Press, 3rd edition, 2010*

- This book gives in chapters 2 and 3 (for part I) and 4 (for part II) in many respects a good overview...
- ...the Lecture notes will be based on these chapters, but they will discuss a number of core papers in considerably more detail

Selected core papers (*list is still incomplete*):

Part I:

- Obstfeld, M. and Rogoff, K., Speculative hyperinflations in maximizing models: can we rule them out?, *Journal of Political Economy*, 91/4, 1983.
- Lucas, R., Inflation and welfare, *Econometrica*, 68/2, 2000.
- Ireland, P., On the welfare cost of inflation and the recent behavior of money demand, *American Economic Review*, 99/3, 2009.

Part II:

- Sargent, T. and Wallace, N., Some unpleasant monetarist arithmetic, *Federal Reserve Bank of Minneapolis Quarterly Review*, Fall, 1981.
- Chari, V., Christiano, L., and Kehoe, P., Optimality of the Friedman rule in economies with distorting taxes, *Journal of Monetary Economics*, 37, 1996.

Format of the course:

- Field course in macroeconomics
- Lectures (2h per week) will take place during both parts of the summer term

Course requirements:

- Grade will be based on a combination of a **problem set** and a **short term paper**
(with weights to be decided at the beginning of the term together with the participants)
- **Topic of the term paper:** any of the subjects discussed or mentioned in the Lecture.
Idea: summarize the value added of a paper covering your preferred subject, link it to ongoing research and develop possible directions for (your own?) future research