

Monetary and Fiscal Policy Issues in General Equilibrium

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GSEFM, Field Course
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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 lectures give a comprehensive **introduction on how to model monetary and fiscal policy issues from a general equilibrium perspective**, covering both positive and normative aspects
- The lectures will use (and where needed explain) concepts and techniques of advanced macroeconomics
- The term papers are expected to cover current research questions

The lecture material 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, Unconventional monetary 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 (*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:

Lectures take place during the first half of the term. There will be six meetings (4 h each) on **April 17, April 24, May 8, May 15, May 22, May 29**

Moreover, there will be a meeting for the presentation of the term papers on **July 17**

All meetings take place on **Wednesdays**, in **Raum Deutsche Bank (E.01)**, **10am - 2pm**

Course requirements:

- The final grade will be based on a combination of the **participation in discussions**, a **problem set**, the **presentation of the term paper**, and the **quality of the written version of the term paper**
(with weights to be decided at the beginning of the term together with the participants)
- The **term paper** can be organized around any quality publication or recent working paper with a clear link to the substance of the course. Preferably, students are invited to select from recent papers with a focus on i) the role of unconventional monetary and fiscal policies or ii) monetary and fiscal policy interactions in monetary unions. A list with suggestions for such papers will be posted at the beginning of the course.
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