Monetary and Fiscal Policy Issues in General Equilibrium

Leopold von Thadden

European Central Bank
and
Johannes Gutenberg Universität Mainz
(Fellow, Chair of Macroeconomics)

GSEFM, Field Course
Summer Term 2016
Motivation of the topic:

- Hopefully straightforward, since in the aftermath of the financial crisis many countries have reached 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.
Overview

The lecture material covers the following topics:

**Part I:** Modelling Money in General Equilibrium: a Primer
(*Focus:* How to model money in general equilibrium? Fragility of monetary equilibria, Welfare cost of inflation)

**Part II:** Money and Public Finance:
Selected Issues from a Positive and a Normative Perspective
(*Focus:* Sargent-Wallace-type budgetary arithmetic, Fiscal theory of the price level, Ramsey-optimal monetary and fiscal policies)

**Part III:** Unconventional monetary policies
(*Focus:* Effectiveness and limitations of unconventional monetary policies)

**Part IV:** Monetary unions
(*Focus:* Strategic interactions between monetary and fiscal policies in monetary unions)
Overview


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

Selected core papers:

**Part I: Modelling Money in General Equilibrium: a Primer**


**Part II: Money and Public Finance:**

Overview

Selected core papers:

**Part III: Unconventional monetary policies**


**Part IV: Monetary unions**

- Bletzinger, T. and von Thadden, L., Designing QE to overcome the lower bound constraint in a complete monetary union: a tractable two-country model, mimeo, 2016.
Format of the course:

Lectures take place during the first half of the term. There will be seven meetings on April 12, April 19, April 26, May 3, May 10, May 17, May 24.

Moreover, there will be a meeting for the presentation of the (initial findings of the) term papers during a special meeting on July 5.

Meetings take place on Tuesdays, in Raum Chicago, HoF 3.36, 4 pm - 8 pm (detailed timing to be communicated during the first meeting).
Overview

Course requirements:

- The final grade will be based on a combination of the participation in discussions in class (15%), a problem set (15%), the presentation of the term paper (20%), and the quality of the written version of the term paper (50%)

- 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. An updated 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