

Seminar on monetary and fiscal stabilization policy

Winter 2009/10

Syllabus

(August 18, 2009)

Instructor:

Professor Dr. Guenter W. Beck
ReWi I, room 1-145
Website: Information will be provided soon.

Teaching assistant:

Markus Roth
ReWi I, room 1-146
Website: Information will be provided soon.

Office hours:

On appointment

Website:

Information will be provided soon.

Location:

Johannes Gutenberg University of Mainz, Department of Law and Economics
(Room: To be announced (t.b.a).)

(Preliminary) Schedule:

- **Friday, October 30, 2009, 2.00 p.m. - 6.00 p.m.**, (Room: t.b.a): Preliminary meeting: Introduction (Discussion of organizational issues, preparatory lecture and final seminar registration)
- **Thursday, January 7, 2009, 9.00 a.m. - 6.00 p.m.**, (Room: t.b.a): Seminar
- **Friday, January 8, 2009, 12.00 a.m. - 6.00 p.m.**, (Room: t.b.a): Seminar
- **Friday, January 15, 2009:** Deadline for handing in seminar thesis

Registration:

Please come to our preliminary meeting or send an e-mail including your name, matriculation number and course specialization to gbeck@uni-mainz.de to register for the seminar. Deadline for registration will be the preliminary meeting. The number of seminar participants will need to be capped at 20. Should there be more than 20 registrations by the registration deadline, students are selected on a “first come first serve” basis.

Description:

The objective of the seminar is to provide an overview on recent research on the topic of monetary and fiscal stabilization policy. Topics covered in the course include:

- The costs of business cycles and the benefits of stabilization policies
- Evidence on the effects of monetary and fiscal policy shocks
- The effects of monetary and fiscal policy in standard economic models
- The effects of government debt on the economy
- Monetary and fiscal policy interaction
- Monetary and fiscal policy in monetary unions
- The role of monetary and fiscal policy in the current economic crisis
- ...

A detailed list of topics is given below.

Seminar requirements:

Students will be graded upon the following:

- Presentation: (40%).
- Seminar handout: (10%).
- Seminar thesis: (50%).

In order to receive 5 CP students have to successfully master all of the three seminar requirements at least with grade 4.0.

Course Language:

While the language of instruction for the course will be English, the presentations can be held either in English or German language. The same applies to the seminar handouts and the seminar thesis.

Topics:

1. The costs of business cycles and the benefits of stabilization policies

- Lucas (2003)
- Barlevy (2005)
- Yellen and Akerlof (2006)

2. The effects of monetary and fiscal policy shocks: Evidence

(a) Monetary policy shocks

- Christiano et al. (1999)
- Romer and Romer (2004)

(b) Fiscal policy shocks

- Blanchard and Perotti (2002)
- Fatás and Mihov (2001)
- Edelberg et al. (1999)

3. The effects of monetary and fiscal policy in a standard RBC model

- Walsh (2003, chapter 2)
- (Galí, 2008, chapter 2)
- Baxter and King (1993)

4. The effects of monetary and fiscal policy in a standard New-Keynesian model

- Walsh (2003, chapter 5)
- Galí (2008, chapter 3)

5. Policy rules and macroeconomics stability

- Clarida et al. (2000)
- Andrés and Doménech (2006)

6. Monetary and fiscal policy interaction

- Schmitt-Grohe and Uribe (2004)
- Muscatelli et al. (2004)

7. Effects of government debt on the economy

- Elmendorf and Mankiw (1998)

8. Monetary policy in deflation

- Orphanides (2004)
- Eggertsson and Woodford (2003)
- Svensson (2006)

9. Monetary and fiscal policy in a monetary union

- Galí and Monacelli (2005)
- Benigno (2004)

10. Monetary and fiscal policy in EMU

- Canzoneri et al. (2005)
- Beetsma and Uhlig (1999)
- Uhlig (2002)

11. Open economy issues

- Clarida et al. (2001)
- Darracq-Pariès (2003)
- Ball (1998)

12. The role of monetary and fiscal policy in the current economic crisis

- Davig and Leeper (2009)
- Christiano et al. (2009)
- Cochrane (2009)
- Eggertsson (2009)
- Goodfriend (2009)
- Hall and Sargent (2009)
- Sims (2009)
- Uhlig (2009)

References:

- Andrés, J. and Doménech, R. (2006). Fiscal Rules and Macroeconomic Stability. Hacienda Pública Española, 176(1):9–41.
- Ball, L. (1998). Policy Rules for Open Economies. NBER Working Papers 6760, National Bureau of Economic Research, Inc.
- Barlevy, G. (2005). The cost of business cycles and the benefits of stabilization. Economic Perspectives, (Q I):32–49.
- Baxter, M. and King, R. G. (1993). Fiscal Policy in General Equilibrium. American Economic Review, 83(3):315–34.
- Beetsma, R. and Uhlig, H. (1999). An Analysis of the Stability and Growth Pact. Economic Journal, 109(458):546–71.
- Benigno, P. (2004). Optimal monetary policy in a currency area. Journal of International Economics, 63(2):293–320.
- Blanchard, O. and Perotti, R. (2002). An Empirical Characterization Of The Dynamic Effects Of Changes In Government Spending And Taxes On Output. The Quarterly Journal of Economics, 117(4):1329–1368.
- Canzoneri, M. B., Cumby, R. E., and Diba, B. T. (2005). How Do Monetary and Fiscal Policy Interact in the European Monetary Union? NBER Working Papers 11055, National Bureau of Economic Research, Inc.
- Christiano, L. J., Eichenbaum, M., and Evans, C. L. (1999). Monetary policy shocks: What have we learned and to what end? In Taylor, J. B. and Woodford, M., editors, Handbook of Macroeconomics, volume 1, chapter 2, pages 65–148. Elsevier.
- Christiano, L. J., Eichenbaum, M., and Rebelo, S. (2009). When is the Government Spending Multiplier Large? unpublished.
- Clarida, R., Galí, J., and Gertler, M. (2000). Monetary policy rules and macroeconomic stability: Evidence and some theory. The Quarterly Journal of Economics, 115(1):147–180.
- Clarida, R., Galí, J., and Gertler, M. (2001). Optimal Monetary Policy in Open versus Closed Economies: An Integrated Approach. American Economic Review, 91(2):248–252.
- Cochrane, J. H. (2009). Fiscal theory, and fiscal and monetary policy in the financial crisis. unpublished.

- Darracq-Pariès, M. (2003). Price setting and optimal monetary cooperation – a new keynesian perspective. In Hairault, J.-O. and Sopraseuth, T., editors, Exchange Rate Dynamics: A New Open Economy Macroeconomics Perspectives, volume 1, chapter 2, pages 65–148. Routledge.
- Davig, T. and Leeper, E. M. (2009). Monetary-fiscal policy interactions and fiscal stimulus. NBER Working Papers 15133, National Bureau of Economic Research, Inc.
- Edelberg, W., Eichenbaum, M., and Fisher, J. D. (1999). Understanding the Effects of a Shock to Government Purchases. Review of Economic Dynamics, 2(1):166–206.
- Eggertsson, G. B. (2009). Can Tax Cut Deepen the Recession? unpublished.
- Eggertsson, G. B. and Woodford, M. (2003). The zero bound on short-term interest rates and optimal monetary policy. Brookings Papers on Economic Activity, (1):139–211.
- Elmendorf, D. W. and Mankiw, N. G. (1998). Government debt. NBER Working Papers 6470, National Bureau of Economic Research, Inc.
- Fatás, A. and Mihov, I. (2001). The Effects of Fiscal Policy on Consumption and Employment: Theory and Evidence. CEPR Discussion Papers 2760, C.E.P.R. Discussion Papers.
- Galí, J. (2008). Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework. Princeton University Press.
- Galí, J. and Monacelli, T. (2005). Optimal fiscal policy in a monetary union. Proceedings.
- Goodfriend, M. (2009). Central Banking in the Credit Turmoil: An Assessment of the Federal Reserve Practice. unpublished.
- Hall, G. and Sargent, T. J. (2009). Measuring Interest Rate Payments on the U.S. Federal Debt. unpublished.
- Lucas, Robert E., J. (2003). Macroeconomic priorities. The American Economic Review, 93(1):1–14.
- Muscattelli, V. A., Tirelli, P., and Trecroci, C. (2004). Fiscal and monetary policy interactions: Empirical evidence and optimal policy using a structural New-Keynesian model. Journal of Macroeconomics, 26(2):257–280.

- Orphanides, A. (2004). Monetary Policy in Deflation: The Liquidity Trap in History and Practice. The North American Journal of Economics and Finance, 15(1):101–124.
- Romer, C. D. and Romer, D. H. (2004). A new measure of monetary shocks: Derivation and implications. American Economic Review, 94(4):1055–1084.
- Schmitt-Grohe, S. and Uribe, M. (2004). Optimal fiscal and monetary policy under sticky prices. Journal of Economic Theory, 114(2):198–230.
- Sims, C. A. (2009). Current Fiscal Policy, Future Fiscal Policy, the Fed Balance Sheet, and Inflation Control. unpublished.
- Svensson, L. E. (2006). Monetary Policy and Japan’s Liquidity Trap. Working Papers 76, Princeton University, Department of Economics, Center for Economic Policy Studies.
- Uhlig, H. (2002). One Money, but Many Fiscal Policies in Europe: What Are the Consequences? CEPR Discussion Papers 3296, C.E.P.R. Discussion Papers.
- Uhlig, H. (2009). Some Fiscal Calculus. unpublished.
- Walsh, C. E. (2003). Monetary theory and policy. The MIT Press, Cambridge.
- Yellen, J. L. and Akerlof, G. A. (2006). Stabilization policy: A reconsideration. Economic Inquiry, 44(1):1–22.