

Seminar on monetary theory and policy

Winter 2010/2011

Syllabus

(October 12, 2010)

Instructor:

Guenter W. Beck
ReWi I, room 1-145

Teaching assistants:

Markus Roth and Christian Rühl
ReWi I, room 1-146
E-Mail: rothm@uni-mainz.de, ruehl@uni-mainz.de.

Office hours:

On appointment

Website:

<http://www.macro.economics.uni-mainz.de/322.php>.

Location:

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

(Preliminary) Schedule:

- **Day: November 5, 2010, 2.00 p.m. - 3.00 p.m.:** (Room: t.b.a.): Preliminary meeting: Introduction (Discussion of organizational issues)
- **December 9, 2010, 9.00 a.m. - 6.00 p.m.** (Room: t.b.a.): Seminar
- **December 10, 2010, 9.00 a.m. - 12.00 a.m.** (Room: t.b.a.): Seminar
- **December 17, 2010:** Deadline for handing in seminar thesis

Description:

The objective of the seminar is to provide an overview on recent research on topics related to monetary theory and policy. Topics covered in the seminar include:

- What is money?
- Stylized facts about money
- Various approaches to introduce money into macroeconomic model
- The credit channel of monetary policy
- Monetary policy and time inconsistency
- Taylor rules
- Evidence on the effects of monetary and fiscal policy shocks
- The effects of monetary and fiscal policy in standard economic models
- 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. What is money?

- Kocherlakota, Narayana R., 1998. "Money Is Memory," *Journal of Economic Theory*, Elsevier, vol. 81(2), pages 232-251, August.

2. Stylized facts about money

- Backus, David K and Kehoe, Patrick J, 1992. "International Evidence of the Historical Properties of Business Cycles," *American Economic Review*, American Economic Association, vol. 82(4), pages 864-88, September.
- Lawrence J. Christiano and Martin Eichenbaum and Charles L. Evans, 1998. "Monetary Policy Shocks: What Have We Learned and to What End?," NBER Working Papers 6400, National Bureau of Economic Research, Inc.
- Finn E. Kydland and Edward C. Prescott, 1990. "Business cycles: real facts and a monetary myth," *Quarterly Review*, Federal Reserve Bank of Minneapolis, issue Spr, pages 3-18.
- George T. McCandless, Jr. and Warren E. Weber, 1995. "Some monetary facts," *Quarterly Review*, Federal Reserve Bank of Minneapolis, issue Sum, pages 2-11.

3. Different approaches to introduce money into macroeconomic models

(a) Money-in-the-utility function models

- James M. Poterba and Julio J. Rotemberg, 1988. "Money in the Utility Function: An Empirical Implementation," NBER Working Papers 1796, National Bureau of Economic Research, Inc. (restricted)
- Robert E. Lucas, Jr., 1994. "On the welfare cost of inflation," *Working Papers in Applied Economic Theory* 94-07, Federal Reserve Bank of San Francisco.
- Alvin L. Marty, 1999. "The welfare cost of inflation: a critique of Bailey and Lucas," *Review*, Federal Reserve Bank of St. Louis, issue Jan, pages 41-46.

(b) Cash-in-advance models

- Svensson, Lars E O, 1985. "Money and Asset Prices in a Cash-in-Advance Economy," *Journal of Political Economy*, University of Chicago Press, vol. 93(5), pages 919-44, October.
- Lucas, Robert E, Jr and Stokey, Nancy L, 1987. "Money and Interest in a Cash-in-Advance Economy," *Econometrica*, Econometric Society, vol. 55(3), pages 491-513, May.
- Cooley, Thomas F and Hansen, Gary D, 1989. "The Inflation Tax in a Real Business Cycle Model," *American Economic Review*, American Economic Association, vol. 79(4), pages 733-48, September.
- Cooley, Thomas F and Hansen, Gary D, 1991. "The Welfare Costs of Moderate Inflation," *Journal of Money, Credit and Banking*, Blackwell Publishing, vol. 23(3), pages 483-503, August.

(c) Money search models with fixed prices

- Kiyotaki, Nobuhiro and Wright, Randall, 1989. "On Money as a Medium of Exchange," *Journal of Political Economy*, University of Chicago Press, vol. 97(4), pages 927-54, August.
- Ritter, Joseph A, 1995. "The Transition from Barter to Fiat Money," *American Economic Review*, American Economic Association, vol. 85(1), pages 134-49, March.
- Howitt, Peter and Clower, Robert, 2000. "The emergence of economic organization," *Journal of Economic Behavior and Organization*, Elsevier, vol. 41(1), pages 55-84, January.

(d) Money search models with flexible prices

- Trejos, Alberto and Wright, Randall, 1995. "Search, Bargaining, Money, and Prices," *Journal of Political Economy*, University of Chicago Press, vol. 103(1), pages 118-41, February.
- Ricardo Lagos and Randall Wright, 2005. "A Unified Framework for Monetary Theory and Policy Analysis," *Journal of Political Economy*, University of Chicago Press, vol. 113(3), pages 463-484, June.

4. Limited participation

- Grossman, Sanford and Weiss, Laurence, 1983. "A Transactions-Based Model of the Monetary Transmission Mechanism," *American Economic Review*, American Economic Association, vol. 73(5), pages 871-80, December.
- Fernando Alvarez and Andrew Atkeson and Patrick J. Kehoe, 2002. "Money, Interest Rates, and Exchange Rates with Endogenously Segmented Markets," *Journal of Political Economy*, University of Chicago Press, vol. 110(1), pages 73-112, February.
- Christiano, Lawrence J and Eichenbaum, Martin, 1992. "Liquidity Effects and the Monetary Transmission Mechanism," *American Economic Review*, American Economic Association, vol. 82(2), pages 346-53, May.
- Filippo Occhino, 2004. "Modeling the Response of Money and Interest Rates to Monetary Policy Shocks: A Segmented Markets Approach," *Review of Economic Dynamics*, Elsevier for the Society for Economic Dynamics, vol. 7(1), pages 181-197, January.
- Stephen Williamson, 2004. "Limited participation, private money, and credit in a spatial model of money," *Economic Theory*, Springer, vol. 24(4), pages 857-875, November.
- David Andolfatto and Ed Nosal, 2003. "A theory of money and banking," Working Paper 0310, Federal Reserve Bank of Cleveland.

5. Imperfect competition and price stickiness

- Mark Bils and Peter J. Klenow, 2004. "Some Evidence on the Importance of Sticky Prices," *Journal of Political Economy*, University of Chicago Press, vol. 112(5), pages 947-985, October.

- Joseph G. Altonji and Paul J. Devereux, 1999. "The Extent and Consequences of Downward Nominal Wage Rigidity," NBER Working Papers 7236, National Bureau of Economic Research, Inc.
- Christopher Hanes and John A. James, 2003. "Wage Adjustment Under Low Inflation: Evidence from U.S. History," American Economic Review, American Economic Association, vol. 93(4), pages 1414-1424, September.
- Lawrence J. Christiano and Martin Eichenbaum and Charles L. Evans, 2005. "Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy," Journal of Political Economy, University of Chicago Press, vol. 113(1), pages 1-45, February.
- Cho, Jang-Ok and Cooley, Thomas F, 1995. "The Business Cycle with Nominal Contracts," Economic Theory, Springer, vol. 6(1), pages 13-33, June.
- V. V. Chari and Patrick J. Kehoe and Ellen R. McGrattan, 1996. "Sticky Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problem?," NBER Working Papers 5809, National Bureau of Economic Research, Inc.

6. The credit channel of monetary policy

- Bernanke, Ben S and Gertler, Mark, 1995. "Inside the Black Box: The Credit Channel of Monetary Policy Transmission," Journal of Economic Perspectives, American Economic Association, vol. 9(4), pages 27-48, Fall.
- Thomas Cooley and Vincenzo Quadrini, 2006. "Monetary policy and the financial decisions of firms," Economic Theory, Springer, vol. 27(1), pages 243-270, 01.

7. A critical assessment of structural VAR models

- Jordi Gali, 1999. "Technology, Employment, and the Business Cycle: Do Technology Shocks Explain Aggregate Fluctuations?," American Economic Review, American Economic Association, vol. 89(1), pages 249-271, March.
- V. V. Chari and Patrick J. Kehoe and Ellen R. McGrattan, 2007. "Are structural VARs with long-run restrictions useful in developing business cycle theory?," Staff Report 364, Federal Reserve Bank of Minneapolis.
- Jesús Fernández-Villaverde and Juan F. Rubio-Ramirez and Thomas J. Sargent and Mark Watson, 2006. "A,B,C's (and D's)'s for Understanding VARs," Levine's Bibliography 32130700000000646, UCLA Department of Economics.
- Lawrence J. Christiano and Martin Eichenbaum and Robert Vigfusson, 2006. "Assessing structural VARs," International Finance Discussion Papers 866, Board of Governors of the Federal Reserve System (U.S.).

8. Monetary policy and time inconsistency

- Kydland, Finn E and Prescott, Edward C, 1977. "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," Journal of Political Economy, University of Chicago Press, vol. 85(3), pages 473-91, June.

- Barro, Robert J and Gordon, David B, 1983. "A Positive Theory of Monetary Policy in a Natural Rate Model," *Journal of Political Economy*, University of Chicago Press, vol. 91(4), pages 589-610, August.

9. Taylor rules

- Taylor, John B., 1993. "Discretion versus policy rules in practice," *Carnegie-Rochester Conference Series on Public Policy*, Elsevier, vol. 39(1), pages 195-214, December.
- Athanasios Orphanides, 2000. "Activist stabilization policy and inflation: the Taylor rule in the 1970s," *Finance and Economics Discussion Series 2000-13*, Board of Governors of the Federal Reserve System (U.S.).
- Benhabib, Jess and Schmitt-Grohe, Stephanie and Uribe, Martin, 2001. "The Perils of Taylor Rules," *Journal of Economic Theory*, Elsevier, vol. 96(1-2), pages 40-69, January.

10. The effects of monetary policy shocks: Evidence

- 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.
- Romer, C. D. and Romer, D. H. (2004). A new measure of monetary shocks: Derivation and implications. *American Economic Review*, 94(4):1055–1084.

11. The effects of monetary policy in a standard RBC model

- Walsh, C. E. (2003). *Monetary theory and policy*. Chapter 2. The MIT Press, Cambridge.
- Galí, J. (2008). *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*. Chapter 2 Princeton University Press.
- Baxter, M. and King, R. G. (1993). Fiscal Policy in General Equilibrium. *American Economic Review*, 83(3):315–34.

12. The effects of monetary policy in a standard New-Keynesian model

- Walsh, C. E. (2003). *Monetary theory and policy*. Chapter 5. The MIT Press, Cambridge.
- Galí, J. (2008). *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*. Chapter 5. Princeton University Press.

13. Monetary and fiscal policy interaction

- Schmitt-Grohe, S. and Uribe, M. (2004). Optimal fiscal and monetary policy under sticky prices. *Journal of Economic Theory*, 114(2):198–230.

- Muscatelli, 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.

14. Monetary policy in deflation

- 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.
- 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.
- Svensson, L. E. (2006). Monetary Policy and Japan’s Liquidity Trap. Working Papers 76, Princeton University, Department of Economics, Center for Economic Policy Studies.

15. Monetary and fiscal policy in a monetary union

- Schmitt-Grohe, S. and Uribe, M. (2004). Optimal fiscal and monetary policy under sticky prices. Journal of Economic Theory, 114(2):198–230.
- Benigno, P. (2004). Optimal monetary policy in a currency area. Journal of International Economics, 63(2):293–320.

16. Monetary and fiscal policy in EMU

- 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.
- Beetsma, R. and Uhlig, H. (1999). An Analysis of the Stability and Growth Pact. Economic Journal, 109(458):546–71.
- Uhlig, H. (2009). Some Fiscal Calculus. unpublished.

17. The role of monetary policy in the current economic crisis

- Davig, T. and Leeper, E. M. (2009). Monetary-fiscal policy interactions and fiscal stimulus. NBER Working Papers 15133, National Bureau of Economic Research, Inc.
- Christiano, L. J., Eichenbaum, M., and Rebelo, S. (2009). When is the Government Spending Multiplier Large? unpublished.
- Cochrane, J. H. (2009). Fiscal theory, and fiscal and monetary policy in the financial crisis. 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.
- 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.
- Sims, C. A. (2009). Current Fiscal Policy, Future Fiscal Policy, the Fed Balance Sheet, and Inflation Control. unpublished.
- Uhlig, H. (2009). Some Fiscal Calculus. unpublished.