

12M014

3 ECTS

Monetary Policy

Overview and Objectives

The lectures will provide an overview of the literature on monetary policy, with a special emphasis on its effects on its effect on macroeconomic variables over the business cycle. We will cover both the main theoretical models and relevant empirical evidence, as well as recent developments about unconventional monetary policies, heterogeneous agents. Lecture notes and problem sets will be handed out during the course.

Course Outline

Session 1:

Stylized Facts about Money, Output and Inflation

Long-run and short-run effects of monetary policy on aggregate economic variables.

Session 2 and 3:

A Classical Monetary Model

A simple general equilibrium model. Monetary policy rules and price level determination. Neutrality of money. Sources of non- neutrality.

Sessions 4 and 5:

The Basic New Keynesian Model

Motivation and evidence. The basic New Keynesian model. The effects of demand and supply shocks.

Session 6, 7 and 8:

Monetary Policy Design in the Baseline Model

Simple monetary policy rules: theory and evidence. Optimal monetary policy and its implementation. Commitment vs Discretion.

Sessions 9 and 10:

Extensions of the Baseline Model and their Implications for Monetary Policy

The Liquidity Trap. Unconventional Monetary Policy. Heterogeneous Agents Models.

Required activities

There will be 10 lectures, and 4 seminar sessions. Each week problem sets will be assigned, for which you'll have to hand in handwritten solutions the following week. Problem sets are very important, not only because they account for part of your grade, but also and especially because they are necessary to learn the working of the models that we study. The probability of passing the course is almost zero if you do not try and solve the problems yourself.

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Evaluation

The grade for the course will be determined by a weighted average of Problem Sets (20%) and a Final Exam (80%) at the end of the quarter.

Materials

The main textbook for the course is:

Galí, Jordi (2015): *Monetary Policy, Inflation and the Business Cycle. An Introduction to the New Keynesian Framework*, Princeton University Press (Princeton, NJ), 2ed.

Another textbook, covering a wider range of topics on monetary economics is:

Walsh, Carl E. (2010): *Monetary Theory and Policy*, Third Edition, MIT Press (Cambridge, MA)

Additional readings (preliminary list)

Barro, Robert J. (1998), 'Determinants of Economic Growth: A Cross-Country Empirical Study', MIT Press Books.

Bruno, Michael and William Easterly (1998), "Inflation Crises and Long-Run Growth", *Journal of Monetary Economics*, Vol. 41, No. 1.

Christiano, L., M. Eichenbaum, and Charles L. Evans (1998): "Monetary Policy Shocks: What Have We Learned and to What End?", in J.B. Taylor, and M. Woodford eds., *Handbook of Macroeconomics*, vol. 1A, 65-148.

Dhyne, Emmanuel et al. (2006): "Price Changes in the Euro Area and the United States: Some Facts from Individual Consumer Price Data", *Journal of Economic Perspectives*, vol. 20, no. 2, 171-192.

McCandless, George T. and W. Weber (1995), "Some Monetary Facts", *Federal Reserve Bank of Minneapolis, Quarterly Review*.

Nakamura E. and J. Steinsson (2007): "Five Facts About Prices: A Reevaluation of Menu Cost Models", *Quarterly Journal of Economics*, vol. CXXIII, issue 4, 1415-1464.

Smets, F. and R. Wouters (2007): "Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach." *American Economic Review*, 97(3): 586-606.