

Monetary Policy, Inflation, and Business Cycles

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M.Sc. in Economics
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Outline

The course discusses macroeconomic models designed to study monetary policy. Specifically, we will analyze if and how monetary policy can influence real variables such as output, employment, and growth as well as monetary variables such as interest rates, inflation, and the price level. Further, we will study the interaction between monetary and fiscal policy and their joint impact on the economy. Our discussion will involve the two major workhorses of modern macroeconomics in this field: First, the *New Classical* framework, which assumes price-taking behavior of all market participants combined with perfect price flexibility on all markets. Second, the class of *New Keynesian* models which incorporate various frictions such as monopolistic competition and staggered price adjustments and which has become the dominant framework to guide decisions on monetary policy in recent years.

Prerequisites

Advanced Macroeconomics I.

Lectures

Lectures take place on Tuesdays, 11.45–13.15 in room G309 (April 24 – July 18). Note that there will be no lecture on June 27. Instead, an additional lecture will be given on July 11 at 15:15-16:45 in G201.

Tutorials

Tutorials take place on Tuesdays, May 9, May 23, June 6, June 20, and July 18, 15:15-16:45 in room G 201.

Grading

The course grade is based on the final exam (60%) and on (group) homework assignments (40%). Students are expected to submit all five assignments and be ready to present their solution approaches in the tutorials. Printouts of the assignments must be submitted on Mondays before the respective tutorials to our secretary's office (Mrs. Fuchs in F238).

Course material

The course draws on various sources listed below which are available online or in the library. Additional references will be given in class. Lecture presentation slides and problem sets will be made available in ILIAS.

- [C] Cochrane, J. (2014): *Monetary policy with interest on reserves*, Journal of Economic Dynamics and Control 49: 74-108.
- [G] Gali, J. (2008): *Monetary Policy, Inflation and Business Cycles*, Princeton University Press.
- [L] Leeper, E. (1991): *Equilibria under 'active' and 'passive' monetary and fiscal policies*, Journal of Monetary Economics 27(1): 129-147.
- [MC] McCandless, G. (2008): *The ABCs of RBCs*, Harvard University Press.
- [M] Miao, J. (2014): *Economic Dynamics in Discrete Time*, MIT Press.
- [SGU] Schmitt-Grohe, S. and M.Uribe (2010): *The Optimal Rate of Inflation*, Handbook of Monetary Economics 3, Chapter 3: 653-722.
- [CW] Walsh, C. (2010): *Monetary Theory and Policy*, 3rd ed., MIT press.
- [MW] Woodford, M. (2003): *Interest and Prices*, Princeton University Press.

Schedule

1. New Classical Monetary Theory
[CW]:Ch.2; [G]:Ch.2; [MC]:Ch.8-9; [SG].
2. Policy Rules and Price Level Determinacy
[C]; [CW]:Ch.4; [G]:Ch.2; [L].
3. Optimal Monetary Policy
[CW]:Ch.4; [G]:Ch.2; [SG]; [W].
4. New Keynesian Monetary Theory
[CW]:Ch.8; [G]:Ch.3; [M]:Ch.19; [W].
5. Monetary Policy in the New Keynesian Model
[CW]:Ch.8; [G]:Ch.4-5; [SG]; [W].