

MACROECONOMICS

ECON 210C; SPRING 2002

Grade: Midterm (35%), Final (65%).

Literature: The * articles are required. The articles have been or will be put on reserve in the graduate student lounge. Several of these articles can also be downloaded from JSTOR at "<http://www.jstor.org>". The Meulendijke article can be downloaded from the Federal Reserve Bank of New York web site "<http://www.ny.frb.org/pihome/addpub/monpol/>".

1. Dynamic Optimization

Topics:

- social planners problem and the competitive equilibrium
 - recursive problems
 - Bellman equation
 - first-order conditions and the Bellman equation
 - transversality conditions
 - functions as solutions
 - determining the state variables
- Ljungqvist and Sargent, T.J., 2000, Recursive Macroeconomic Theory. Chapters 1&2.
 - ~~Stockey~~, N.L., R.E. Lucas Jr., and E.C. Prescott, 1989, Recursive Methods in Economic Dynamics. Chapters 1, 2, 3, and 4.

2. Different Types of Monetary Models.

Topics:

- transaction cost / shopping time models
 - cash-in-advance models
 - matching models
 - non-monetary and monetary overlapping generations models
 - money neutrality and superneutrality
 - relation between "traditional" money demand equations and structural monetary models
 - seignorage
- *McCallum, B.T., 1990, Inflation: Theory and evidence, in B.M. Friedman and F. Hahn, eds., Handbook of Monetary Economics (North-Holland).

- *Blanchard, O.J., and S. Fisher, 1989, Lectures on Macroeconomics, sections 4.1, 4.2, 4.5, 4.6, and 4.7.
- *Kyotaki, N. and R. Wright, 1989, On money as a medium of exchange, Journal of Political Economy 97, 927-954.
- Walsh, C.E., Monetary Theory and Policy, 1998, Chapters 2 and 3.
- Farmer, R.E.A., 1993, The macroeconomics of self-fulfilling prophecies, Chapters 10 and 11.
- Azariadis, C., 1993, Intertemporal Macroeconomics, Chapters 25 and 26.

3. Optimal monetary policy

Topics:

- Monetary equilibria and Pareto optimality?
- Chicago rule.
- Time Inconsistency
- Taylor rule and sun spots
- *McCallum, B.T., 1990, Inflation: Theory and evidence, in B.M. Friedman and F. Hahn, eds., Handbook of Monetary Economics (North-Holland).
- *Clarida, R., J. Gali, and M. Gertler, 1998, Monetary policy rules and macroeconomic stability: Evidence and some Theory, NBER working paper 6442.
- *Orphanides, Athanasios, 2001, Monetary policy rules based on real-time data, American Economic Review 91(4), 964-985.
- *Clarida, R., J. Gali, and M. Gertler, 1999, The science of monetary policy: A new Keynesian Perspective, Journal of Economic Literature 37(4), 1661-1734.
- Walsh, C.E., Monetary Theory and Policy, 1998, Sections 8.1 & 8.2.
- Braun, R.A., 1994, Another attempt to quantify the benefits of reducing inflation, Quarterly review of the Federal Reserve Bank of Minneapolis, Fall 1994.
- Samuelson, P., 1958, An exact consumption-loan model on interest with or without the social contrivance of money, Journal of Political Economy 6, 467-482.
- Kydland, F.E., and E.C. Prescott, 1977, Rules rather than discretion, Journal of Political Economy 85, 472-491.

4. Real Business Cycles.

Topics:

- Efficient recessions.
- Equilibrium
- Propagation
- *Cooley, T.F. and E.C. Prescott, 1994, in T.F. Cooley, ed., Frontiers of Business Cycle Research, Princeton University Press.
- *Romer, D., 1996, Advanced Macroeconomics, Chapter 4, 146-194.

5. Business Cycles and Monetary Policy: the Monetary Transmission Mechanism.

Topics:

- Stylized Facts
- Measuring Monetary Supply Shocks
- VARs and Impulse Response Functions
- Money versus Credit
- Narrow versus Broad Credit View
- Where do you build in Imperfections

Background:

- Meulendijke, A._M., 1989, U.S. Monetary policy and financial markets, Chapter 2.

Empirical Findings:

- *Bernanke, B.S., and A.S. Blinder, 1992, The federal funds rate and the channels of monetary transmission, American Economics Review 82, 901-921.
- *Christiano, L.J., M. Eichenbaum, and C.L. Evans, 1998, Monetary Policy Shocks: What have we learned and to what end?, Handbook of Macroeconomics.
- *Gertler, M., and S. Gilchrist, 1994, Monetary policy, business cycles, and the behavior of small manufacturing firms, Quarterly Journal of Economics 109(2), 309-340.

Survey of Traditional Theories:

- Romer, D., 1996, Advanced Macroeconomics, Chapter 6, 241-308.
- Walsh, C.E., Monetary Theory and Policy, 1998, Chapter 5.

Recent Theories:

- *Kashyap, A.K., J.C. Stein, and D.W. Wilcox, 1993, Monetary policy and credit conditions: Evidence from the composition of external finance, American Economic Review LXXXIII, 78-98.
- *Bernanke, B.S., M. Gertler, and S. Gilchrist, 1999, The financial accelerator in a quantitative business cycle framework, in J.B. Taylor and M. Woodford, eds., Handbook of Macroeconomics 1C, North-Holland
- *Kiotaki, N., and J. Moore, 1997, Credit Cycles, Journal of Political Economy 105(2), 211-248.
- Kashyap, A.K., and J.C. Stein, 1995, The impact of monetary policy on bank balance sheets, Carnegie-Rochester Conference Series on Public Policy 42, 151-195.
- Carlstrom, C.T., and T.S. Fuerst, 1997, Agency costs, net worth, and business fluctuations: A computable general equilibrium analysis, American Economic Review 87(5), 893-910.
- Walsh, C.E., Monetary Theory and Policy, 1998, Chapter 7.

Additional Reading:

- Cooley, T.F., and G.D. Hansen, 1994, Money and the Business Cycle, in: Frontiers of business cycle research.

- Romer, D., 1993, *The New Keynesian Economics*, 7(1), 5-22.
- Christiano, L.J., M. Eichenbaum, and C.L. Evans, 1996, Sticky price and limited participation models of money: A comparison.
- Gertler, M., 1988, Financial Structure and aggregate economic activity: An overview, *Journal of Money Credit and Banking* 20(3), 559-588.

6. Fiscal Theory of the Price Level.

- *Christiano, L.J., and T.J. Fitzgerald, 2000, Understanding the fiscal theory of the price level, working paper.