

IWH-DPE/CGDE

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9 September to 13 September 2013

FRONTIERS IN MACROECONOMICS

MONETARY ECONOMICS

Aim of the Course

The course will cover DSGE models of the business cycle where monetary policy can have real effects. We will first study some key-empirical investigations that have identified monetary policy shocks as possible drivers of the business cycle. Then, we will build a coherent general equilibrium framework to think about questions addressed by monetary economists. Attention will be devoted to model validation and misspecification, as well as to the key-empirical ingredients a monetary macroeconomic model should possess to successfully replicate the main monetary-macroeconomic facts. We will then exploit our framework to understand optimal monetary policy design and trade-offs.

Schedules of classes

The tentative schedule reads as follows:

Monday, September 9: 10:30-12:45, 14:30-17:30

Tuesday, September 10: 10:30-12:45, 14:30-17:30

Wednesday, September 11: 10:30-12:45, 14:30-17:30

Tuesday, September 12: 10:30-12:45, 14:30-17:30

Friday, September 13: 10:30-12:00

Exam

Written.

Venue

Halle Institute for Economic Research (IWH)
Kleine Maerkerstrasse 8
06108 Halle (Saale)
conference room (ground floor)

Registration

Please contact Annett Hartung, Phone: +49 345 7753 751, E-mail: annett.hartung@iwh-halle.de, until 15 July 2013.

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in Economics

Reading List

The role of money/nominal rigidities: Some facts

Galí (2008) (Chapter 1), Christiano, Eichenbaum, and Evans (1999), Christiano, Eichenbaum, and Evans (2005), Bils and Klenow (2004), Nakamura and Steinsson (2008), Kehoe and Midrigan (2012).

A classical monetary model

Galí (2008) (Chapter 2).

The New Keynesian model

Galí (2008) (Chapter 3).

Empirical assessment: Single-equation approach

- NKPC: Galí and Gertler (1999), Fuhrer (2006), Cogley and Sbordone (2008), Benati (2008).
- *Taylor rule*: Clarida, Galí, and Gertler (2000), Orphanides (2002), Lubik and Schorfheide (2004), Boivin and Giannoni (2006), Mavroeidis (2010), Coibion and Gorodnichenko (2011).
- IS equation: Fuhrer (2000), Fuhrer and Rudebusch (2004).

Extensions: Medium-scale models: Theory and empirics

Christiano, Eichenbaum, and Evans (2005), Smets and Wouters (2007), Del Negro, Schorfheide, Smets, and Wouters (2007).

Empirical issues

- *Monetary policy shocks*: Uhlig (2005), Bernanke, Boivin, and Eliasch (2005), Rabanal (2007), Carlstrom, Fuerst, and Paustian (2009), Castelnuovo and Surico (2010), Coibion (2011).
- *Technology shocks*: Blanchard and Quah (1989), Galí (1999), Rabanal and Jordi (2004), Christiano, Eichenbaum, and Vigfusson (2006), Altig, Christiano, Eichenbaum, and Lindé (2011).
- *Great moderation*: McConnell and Perez-Quiros (2000), Clarida, Galí, and Gertler (2000), Sims and Zha (2006), Smets and Wouters (2007), Justiniano and Primiceri (2008), Justiniano, Primiceri, and Tambalotti (2010), Benati and Surico (2009), Fernández-Villaverde, Guerrón-Quintana, and Rubio-Ramírez (2010).

Monetary policy in the New Keynesian model: Design and trade-offs

Galí (2008) (Chapters 4 and 5)

Financial frictions

Brzoza-Brzezina, Kolasa, and Makarski (2013).

References

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- BENATI, L. (2008): "Investigating Inflation Persistence Across Monetary Regimes," *Quarterly Journal of Economics*, 123(3), 1005-1060.
- BENATI, L., AND P. SURICO (2009): "VAR Analysis and the Great Moderation," *American Economic Review*, 99(4), 1636-1652.
- BERNANKE, B., J. BOVIN, AND P. ELIASZ (2005): "Measuring Monetary Policy: A Factor Augmented Vector Autoregressive (FAVAR) Approach," *Quarterly Journal of Economics*, 120(1), 387-422.
- BILS, M., AND P. J. KLENOW (2004): "Some Evidence on the Importance of Sticky Prices," *Journal of Political Economy*, 112(5), 947-985.
- BLANCHARD, O., AND D. QUAH (1989): "The dynamic effects of aggregate demand and supply disturbances," *American Economic Review*, 79(4), 655-673.
- BOVIN, J., AND M. GIANNONI (2006): "Has Monetary Policy Become More Effective?," *Review of Economics and Statistics*, 88(3), 445-462.
- BRZOZA-BRZEZINA, M., M. KOLASA, AND K. MAKARSKI (2013): "The anatomy of standard DSGE models with financial frictions," *Journal of Economic Dynamics and Control*, 37, 32-51.
- CARLSTROM, C., T. FUERST, AND M. PAUSTIAN (2009): "Monetary Policy Shocks, Choleski Identification, and DNK Models," *Journal of Monetary Economics*, 56(7), 1014-1021.
- CASTELNUOVO, E., AND P. SURICO (2010): "Monetary Policy Shifts, Inflation Expectations and the Price Puzzle," *Economic Journal*, 120(549), 1262-1283.
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- CHRISTIANO, L. J., M. EICHENBAUM, AND R. VIGFUSSON (2006): "Assessing Structural VARs," in D. Acemoglu, K. Rogoff, and M. Woodford (eds.): *NBER Macroeconomics Annual*, The University of Chicago Press, Chicago, Vol. 21, 1-105.
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- DEL NEGRO, M., F. SCHORFHEIDE, F. SMETS, AND R. WOUTERS (2007): "On the Fit of New-Keynesian Models," *Journal of Business and Economic Statistics*, 25(2), 124-162.
- FERNÁNDEZ-VILLVERDE, J., P. GUERRÓN-QUINTANA, AND J. F. RUBIO-RAMÍREZ (2010): "Fortune or Virtue: Time-Invariant Volatilities Versus Parameter Drifting in U.S. Data," NBER Working Paper No. 15928.

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- GALÍ, J., AND M. GERTLER (1999): "Inflation Dynamics: A Structural Econometric Analysis," *Journal of Monetary Economics*, 44(2), 195-222.
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