Kiel Institute Advanced Studies Program
Monetary Theory and Policy
October 17-21, 2011

Simon Gilchrist
Boston University and NBER

Course Overview

This course examines theoretical foundations of New Keynesian Models and their implications for the conduct of monetary policy. The course emphasizes empirically relevant models that are suitable for policy analysis. The course also highlights recent policy issues including the conduct of fiscal and monetary policy at the zero lower bound, and the conduct of monetary policy in environments where financial frictions distort real economic outcomes.

Reading List

Nominal Rigidities and The New Keynesian Model:

Chari, V. V. Patrick J. Kehoe, and Ellen R. McGrattan (2000): "Sticky Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problem?", *Econometrica* 113, no 1, 1-45.

Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans (2005), "Nominal Rigidities and teh Dynamic Effects of a Shock to Monetary Policy," *Journal of Political Economy* 113, no 1, 1-45.

Dotsey, Michael, Robert G. King, and Alexander L. Wolman (1999): "State Dependent Pricing and the General Equilibrium Dynamics of Money and Output," *Quarterly Journal of Economics* 440, no 2. 127-159.

Gali, Jordi (2008): Monetary Policy, Inflation and the Business Cycle, Princeton University Press, Princeton NJ. Chapters 2-3

Gali, Jordi and Mark Gertler (1999): "Inflation dynamics: A structural econometric analysis," *Journal of Monetary Economics* 44, no 2, 195-222.

Goodfriend, M. and R. King (1997): "The New Neoclassical Synthesis and the Role of Monetary Policy," in B. Bernanke and J. Rotemberg, eds. National Bureau of Economic Research Macroeconomics Annual, MIT Press.

Gertler, Mark and John Leahy (2006): "A Phillips Curve with an Ss Foundation," NBER Working Paper No. 11971.

Golosov, Mikhail, and Robert E. Lucas (2007): "Menu Costs and Phillips Curves," *Journal of Political Economy* 115, no 2. 171-199.

Nakamura, Emi and Jon Steinson (2009), "Five Facts About Prices: A Reevaluation of Menu Cost Models," *Quarterly Journal of Economics* 123, no 4, 1415-1464.

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

Taylor, John (1980): "Aggregate Dynamics and Staggered Contracts," *Journal of Political Economy* 88, no1, 1-24.

Optimal Monetary Policy

Barro, Robert J.., and David Gordon (1983): "A Positive Theory of Monetary Policy in a Natural Rate Model," *Journal of Political Economy* 91, no 4, 589-610.

Benigno, Pierpaolo and Michael Woodford (2005): "Inflation Stabilization and Welfare: The Case of a Distorted Steady-State," *Journal of the European Economic Association*, no. 6 1185-1236.

Clarida, Richard, Jordi Gali and Mark Gertler (1999), "The Science of Monetary Policy: A New Keynesian Perspective", *Journal of Economic Literature* 37, no 4, 1661-1707.

Gali, Jordi (2008): *Monetary Policy, Inflation and the Business Cycle*, Princeton University Press, Princeton NJ.

Kydland, Finn E., and Edward C. Prescott (1980): "Rules Rather than Discretion: The Inconsistency of Optimal Plans", *Journal of Political Economy* 37, 1661-1707.

Schmitt-Grohe, Stephanie and Martin Uribe (2004): "Optimal Fiscal and Monetary Policy under Sticky Prices," *Journal of Economic Theory* 114, 198-230.

Woodford, Michael (2003): *Interest Rates and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, Princeton NJ.

Monetary and Fiscal Policy at the Zero Lower Bound

Cogan, John F., Tobias Cwik, John B. Taylor, and Volker Wieland (2009): "New Keynesian versus Old Keynesian Government Spending Multipliers", mimeo, Stanford University.

Christiano, Lawrence, Martin Eichenbaum and Sergio Rebelo (2010): "When is the Fiscal Multiplier Large? ", mimeo, Northwestern University.

Eggertson, Gauti and Michael Woodford (2003): "The Zero Interest-Rate Bound and Optimal Monetary Policy", *Brookings Papers on Economic Activity* 1, 139-211.

Eggertson, Gauti (2010): "Can a Tax Cut Deepen a Recession?", mimeo, Federal Reserve Bank of New York.

Financial Frictions and The New Keynesian Model:

Bernanke, Ben and Mark Gertler (1989): "Agency Costs, Net Worth and Business Cycle Fluctuations", *American Economic Review* 79, no 1, 14-31.

Bernanke, B.S., M. Gertler and S. Gilchrist (1999): "The Financial Accelerator in a Quantitative Business Cycle Framework," in *The Handbook of Macroeconomics*, ed. by J.B. Taylor and M. Woodford, pp 1341-1393. Elsevier Science, B.V, Amsterdam.

Carlstrom, Charles and Timoth Fuerst (1997): "Agency Costs, Net Worth and Business Fluctuations: A Computable General Equilibrium Analysis," *American Economic Review* 87, no 5, 893-910.

Christiano, Lawrence, Roberto Motto and Massimo Rostagno (2009): "Financial Factors and Economic Fluctuations", mimeo, Northwestern University.

Gilchrist, Simon, Vladimir Yankov and Egon Zakrajsek (2009): "Credit Market Shocks and Economic Fluctuations: Evidence from Corporate Bond and Stock Markets", *Journal of Monetary Economics*, 54, 2291-2304.

Gilchrist, Simon and Egon Zakrajsek (2011): "Credit Spreads and Business Fluctuations", *American Economic Review*, forthcoming.

Hall, Robert (2010): "The High Sensitivity of Economic Activity to Financial Frictions". Mimeo, Stanford University.

Iacoviello, Matteo (2009): "House Prices, Borrowing Constraints and Monetary Policy", *American Economic Review* 95, no 3, 739-764.

Jermann, Urban and Vincenzo Quadrini (2010): "Macroeconomic Effects of Financial Shocks", mimeo, University of Southern California.

Kyotaki, Nobuhiro and John Moore (1997): "Credit Cycles", *Journal of Political Economy* 105, no. 2, 211-248.

Liu, Zheng, Pengfei Wang, and Tao Zha (2009): "Do Credit Constraints Amplify Macroeconomic Fluctuations?", mimeo, Federal Reserve Bank of Atlanta.

Financial Frictions and the Conduct of Monetary Policy:

Faia, Esther and Tommaso Monacelli (2007): "Optimal Interest Rate Rules, Asset Prices and Credit Frictions,", textitJournal of Economic Dynamics and Control 31, no 10, 3228-3254.

Gertler, Mark, Simon Gilchrist and Fabio Natalucci (2007): "External Constraints on Monetary Policy and the Financial Accelerator," *Journal of Money, Credit and Banking.*

Gilchrist, Simon and Masashi Saito (2008): "Expectations, Asset Prices and Monetary Policy: The Role of Learning", in Asset Prices and Monetary Policy, John Y. Campbell, Ed..

Curdia, Vasco, and Michael Woodford (2008): "Credit Frictions and Optimal Monetary Policy", mimeo, Columbia University.

Gertler, Mark and Peter Karadi (2009): "A Model of Unconventional Monetary Policy", mimeo, New York University.

Gertler, Mark and Nobuhiro Kyotaki (2010): "Financial Intermediation and Credit Policy in Business Cycle, mimeo, New York University. Analysis".

Gertler, Mark, Nobuhiro Kyotaki and Albert Queralto(2011): "Financial Crises, Bank Risk Exposure and Government Financial Policy ", mimeo, New York University.

Kyotaki, Nobuhiro and John Moore (2009): "Liquidity, Business Cycles and Monetary Policy", mimeo, Princeton University.