

Kiel Institute of the World Economy

Advanced Studies in International Economic Policy Research
August 1, 2010 – May 31, 2011

Monetary and Fiscal Policies in the EU
5-Day Course in February 2011

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Course overview and objective:

The objective of this course is to provide an introduction to the analysis of monetary and fiscal policy making with practical applications to European institutions and policy challenges. We will develop theoretical models of monetary and fiscal policy, investigate how such models can be related to Europe's institutional realities, and learn how different policy recommendations can be evaluated in models estimated with European data. Students will conduct practical simulation exercises and make use of Matlab-based software tools for model analysis.

The following is an outline listing the topics to be discussed in the lectures and relevant background readings. Further details will be provided closer to the course date.

Course outline:

1. Simple Keynesian-Style Models of Monetary Policy and the European Central Bank's Two-Pillar Strategy
2. Money and Public Finance: Ricardian Equivalence and the Fiscal Multiplier
3. Monetary and Fiscal Policy in a Monetary Union and the Maastricht Treaty
4. European Monetary and Fiscal Policy Responses to the Global Financial Crisis
5. Government Debt Dynamics, Fiscal Sustainability and Crisis Exit Strategies

*Background readings: (required *)*

Book Chapters

Walsh, Carl, 2010. Monetary Theory and Policy, MIT Press, 3rd edition, Chapter 8: New Keynesian Monetary Economics.*
Chapter 4: Money and Public Finance.*

Romer, David, 2006. Advanced Macroeconomics, McGraw-Hill Irwin, 3rd edition, Chapter 11: Budget Deficits and Fiscal Policy.

Wieland, Volker, (Editor), The Science and Practice of Monetary Policy Today, Springer Science, 2009, ISBN: 978-3-642-02952-3, Chapters 1, 2, 3 and 5.

Journal Articles:

Beck, Günter and Volker Wieland, “Money in Monetary Policy Design: A Formal Characterization of ECB-Style Cross-Checking,” Journal of the European Economic Association, 5(2-3), April-May 2007.

Beck, G. and V. Wieland, 2010, Money in Monetary Policy Design: Monetary Cross-Checking in the New-Keynesian Model, The Science and Practice of Monetary Policy Today, Springer Science, December 2009, (also ECB-WP 1191).*

Beck, Günter and Volker Wieland, “Central Bank Misperceptions and the Role of Money in Interest Rate Rules”, Journal of Monetary Economics, 55 (S1), October 2008.*

Beetsmaa, Roel, and Henrik Jensen, Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union, Journal of International Economics, 67, 2, December 2005.

Christiano, Lawrence, Martin Eichenbaum and Sergio Rebelo, 2009. When is the government spending multiplier large? NBER Working Paper, 15394.

Coenen, Gunter, Peter Mc Adam and Roland Straub, 2008, Tax Reform and Labour-Market Performance in the Euro Area: A Simulation-Based Analysis Using the New Area-Wide Model, Journal of Economic Dynamics and Control, 32(8), 2543-2583.

Coenen, G., Orphanides, A., Wieland, V., 2004. Price Stability and Monetary Policy Effectiveness when Nominal Interest Rates are Bounded at Zero, Advances in Macroeconomics 4, Issue 1, Article 1, January.

Cogan, John, Tobias, Cwik, John B. Taylor and Volker Wieland, (2010), Old Keynesian versus New Keynesian Government Spending Multipliers, Journal of Economic Dynamics and Control, 34, 3.

Corsetti, Giancarlo, Andre Meier and Gernot Müller 2010, Cross-border spillovers from fiscal stimulus, International Journal of Central Banking, March.

Cwik, T., Wieland, V., 2010, Keynesian Government Spending Multipliers and Spillovers in the Euro Area, ECB WP 1267.*

Davig, T., Leeper, E., 2009. Monetary-Fiscal Policy Interactions and Fiscal Stimulus. NBER Working Paper 15133.

Dixit, Avinash and Luisa Lambertini, Monetary–Fiscal Policy Interactions and Commitment versus Discretion in a Monetary Union, European Economic Review, 45, (4-6), May 2001, Pages 977-987.

Gali, J., Lopez-Salido, D., Valles, J., 2007, Understanding the Effects of Government Spending on Consumption, Journal of the European Economic Association 5, 227-270.

Issing, Otmar, 2008, ``The Euro: Does a Currency Need a State?'' International Finance, 11:3, 297-310. *

Issing, Otmar, 2010, ``Moment of Truth Postponed'' OMFIF Bulletin. (Translated and abbreviated version of “Krise des Euro? – Krise Europas?”, Akademie der Wissenschaften und Literatur, November 2010). *

Kuester, K. and V. Wieland, 2010, Insurance Policies for Monetary Policy in the Euro Area, Co-author: Keith Kuester, Journal of the European Economic Association, Vol. 8, No. 4: 872-912.

Orphanides, A. and V. Wieland, 2000, Efficient Monetary Policy Design Near Price Stability, Journal of the Japanese and International Economies, Vol. 14, pp. 327-365.*

Sinn, Hans-Werner, 2010, Rescuing Europe, CES-Ifo Forum, Vol. 11, August 2010.

Svensson, Lars, ``Inflation Forecast Targeting: Implementing and Monitoring Inflation Targets'', European Economic Review, 1997, 41, pp. 1111-1146.*

Taylor, J.B., 2009. The Lack of an Empirical Rationale for a Revival of Discretionary Fiscal Policy. American Economic Review, 99, No. 2.

Woodford, Michael, 2010. Simple Analytics of the Government Spending Multiplier, NBER Working Paper, 15714.*

Wieland, Volker, 2010. Fiscal Stimulus and the Promise of Future Spending Cuts, International Journal of Central Banking, 6, 1, March 2010.

Wieland, Volker, 2010, Quantitative Easing: A Rationale and some Evidence from Japan, in Reichlin, Lucrezia and Kenneth West (eds.), NBER International Seminar on Macroeconomics 2009, NBER and University of Chicago Press. *

Wieland, V., Cwik, T., Mueller, G., Schmidt, S., Wolters, M., 2010. A New Comparative Approach to Macroeconomic Modelling and Policy Analysis. Manuscript, University of Frankfurt. *