

Monetary Economics

Kiel University

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1 Lectures and office hours

- Monday 4 November 2024
 - **Lecture:** 9.30–12.00
 - **Office hours:** 17.00–18.00
- Tuesday 5 November 2024
 - **Lecture:** 9.30–12.00
 - **Office hours:** 17.00–18.00
- Wednesday 6 November 2024
 - **Lecture:** 9.30–12.00
 - **Office hours:** 17.00–18.00
- Thursday 7 November 2024
 - **Lecture:** 15.30–18.00
- Friday 8 November 2024
 - **Office hours:** 10.00–11.00

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2 Course Description

This course covers topics in monetary and fiscal policy. We begin by showing that adding money to the standard real business cycle model is not sufficient to capture the empirical regularities about the effects of monetary policy on output. This step provides the key motivation to develop a workhorse model (three-equation New Keynesian model) for monetary policy and analyze its core properties. We then look at the prescriptions of the workhorse model in a crisis and its limitations. Finally, we focus on the interaction between monetary and fiscal policy.

3 Books

The main reference book for the course is *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications* by Jordi Galí (henceforth JG). Another book that covers more or less the same topics is *Monetary Theory and Policy* by Carl Walsh (henceforth CW). The book *Interest and Prices: Foundations of a Theory of Monetary Policy* by Michael Woodford (henceforth MW) contains a more advanced and extensive treatment.

The first two lectures closely follow JG, although below I also provide the reference to the corresponding material in CW and MW. In addition, the syllabus lists some key readings for each topic. Articles are especially important for the third and fourth lectures, which none of the books covers satisfactorily.¹ Often my slides will refer to one or more papers for some results. I do not expect you to study the papers not listed in the syllabus in detail. The references are mainly for those of you interested in delving deeper into the topic.

4 Topics and References

1. From the RBC to the New Keynesian model: The real effects of monetary policy (theory and evidence).
 - JG: ch. 1 and 2.
 - CW: ch. 1 and 2.
 - Christiano, L., Eichenbaum, M. and Evans, C. (1999). “Monetary Policy Shocks: What Have We Learned and to What End?” in Taylor, J. and Woodford, M. (eds.) *Handbook of Macroeconomics* vol. 1A, ch. 2, pp. 65-148. North-Holland, Amsterdam.

¹All published articles should be accessible online through your University library. Links to unpublished working papers and book chapters are in blue. Please let me know if you have troubles finding any of the references.

2. The New Neoclassical Synthesis: The three-equation New Keynesian model and its properties.

- JG: ch. 3 and 4.
- CW: ch. 7, 8 and 10.
- MW: ch. 3 and 4.
- Goodfriend, M. and R. King (1998). “The New Neoclassical Synthesis and the Role of Monetary Policy,” in Bernanke B. and Rotemberg J. (eds.) *NBER Macroeconomics Annual 1997* 12, ch. 5, pp. 231-296. MIT Press, Cambridge MA.
- Clarida, R., Galí, J. and M. Gertler (2000). “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory,” *Quarterly Journal of Economics* 115, pp. 147-180.

3. The lower bound on the nominal interest rate: Analytics, applications and policy.

- CW: ch. 11.
- Eggertsson, G. and Woodford, M. (2003). “The Zero Interest-Rate Bound and Optimal Monetary Policy,” *Brookings Papers on Economic Activity* 2003:1.
- Eggertsson, G. (2008). “Great Expectations and the End of the Depression,” *American Economic Review* 90, pp. 1476-1516.
- Eggertsson, G. (2012). “Was the New Deal Contractionary?” *American Economic Review* 102, pp. 524-555.
- Eggertsson, G. and Egeev, S. (2020). “[Fundamental Driven Liquidity Traps: A Unified Theory of the Great Depression and the Great Recession](#),” Unpublished.
- Del Negro, M., Giannoni, M. and Patterson, C. (2023). “The Forward Guidance Puzzle,” *Journal of Political Economy Macroeconomics* 1, pp. 43-79.

4. Monetary and fiscal policy interaction: Implications for equilibrium determinacy, the fiscal theory of the price level, fiscal multipliers in normal times and at the lower bound.

- Cochrane, J. (2022). *The Fiscal Theory of the Price Level*, Princeton University Press.
- Leeper, E. (1991). “Equilibria Under ‘Active’ and ‘Passive’ Monetary and Fiscal Policies,” *Journal of Monetary Economics* 27, pp. 129-147.
- Woodford, M. (1995). “Price Level Determinacy Without Control of a Monetary Aggregate,” *Carnegie-Rochester Conference Series on Public Policy* 43, pp. 1-46.
- Woodford, M. (2001). “Fiscal Requirements for Price Stability,” *Journal of Money, Credit and Banking* 33, pp. 669-728.
- Eggertsson, G. (2011). “What Fiscal Policy Is Effective at Zero Interest Rates?” in Acemoglu, D. and Woodford, M. (eds.) *NBER Macroeconomics Annual 2010* 25, ch. 2, pp. 59-142.