

Syllabus

Danyang Xie, 2 February 2017 (created 19 September 2016)

no tags

Econ 5260 Advanced Macroeconomics II

Course Website: <http://advmacro2.tiddlyspot.com/>

Spring 2017

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Office Hours: Monday 2:00 pm to 3:30 pm or by appointment

TA: Song Tianle

Course Outline and Reading List

This is an advanced macroeconomics theory course for Ph.D. students, with special emphasis on monetary theory and policy. The objective of this course is to introduce you to current research on monetary macro models under flexible prices or with nominal rigidity. These models are then used to conduct monetary policy analysis. We will discuss the empirical and theoretical results that the literature has converged upon and help you develop the needed analytical techniques along the way.

Pre requisites

This course is for Ph.D student in Economics and also available to other students as permitted by the regulations. Knowledge in dynamic optimization and in growth models is required.

All the blue items are the required readings. Print outs are not provided.

The required text book is: Carl Walsh, *Monetary Theory and Policy*, 3/e, MIT Press, 2010

The following books are recommended for general reference:

1. Thomas Sargent, *Dynamic Macroeconomic Theory*, Harvard University Press, 1987.
2. Olivier Blanchard and Stanley Fischer, *Lectures on Macroeconomics*, MIT Press, 1989.
3. David Romer, *Advanced Macroeconomics*, Fourth Edition, McGraw-Hill, 2012.
4. Barro and Sala-i-Martin, *Economic Growth*, McGraw-Hill, Inc. 2nd Edition, 2003.
5. Woodford, Michael, *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, 2003.
6. Gali, Jordi, *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*, Princeton University Press, 2nd Edition, 2015.

The following articles are for general discussions:

1. Blanchard Olivier, "What Do We Know about Macroeconomics that Fisher and Wicksell did not?" *Quarterly Journal of Economics*, 2000.
2. Woodford Michael, "Revolution and Evolution in Twentieth-Century Macroeconomics," 1999.
3. Mankiw Gregory, "The Macroeconomist as Scientist and Engineer," NBER, 2006.
4. Chari V.V. and P. Kehoe, "Modern Macroeconomics in Practice: How Theory is Shaping Policy," *Journal of Economic Perspectives*, 2006.
5. [Krugman Paul, "How Did Economists Get it So Wrong," September 2009, New York Times](#)
6. [John Cochrane, "How Did Paul Krugman Get it So Wrong." 2009](#)

Evaluation Criterion

The evaluation is based on a final exam (50%), a set of homework (20%), paper presentation (20%, 45 minutes for each student) and participation in class discussion (10%). The exam will be open-book. [Selection Criteria for a paper to be used for](#)

presentation (1. 2013 or more recent; 2. related to the topics covered; 3. a Google citation above 50.) **Please download the article to your cloud drive and send the link to me.**

Alert. I will be attending a conference on Wednesday (February 8). We will schedule a make-up class toward the end.

Topics and Readings

A. Test of your knowledge on Growth Theory

- This will allow me to see how fast I can proceed with the subsequent material. Problem Set I is to help you get prepared for the subsequent topics.

B. Empirical evidence on Money, Prices, and Output

- [Walsh, Chapter 1](#)
- [Lecture 1: Empirical Evidence](#)
- Leeper, Sims, and Zha, 1996 "What Does Monetary Policy Do?", Brookings Papers on Economic Activity;
- Christiano, L. M. Eichenbaum, and C. Evans "Monetary Policy Shocks: What Have We Learned and to What End?", in Taylor and Woodford, eds. Handbook of Macroeconomics (NBER working paper 6400).
- [Notes on VAR by Lawrence Christiano](#)

C. Dynamic General Equilibrium Monetary Models

- [Money-in-Utility Model \(Walsh Chapter 2\)](#)
- [Lecture 2: MIUF](#)
- [Money and Transaction: Cash-in-Advance Model \(Walsh Chapter 3\)](#)
- Rebelo S. and D. Xie, "[On the Optimality of Interest Rate Smoothing](#)," *Journal of Monetary Economics*, 1999.
- Miao J and D. Xie, "[Economic Growth under Money Illusion](#)," *Journal of Economic Dynamics and Control*, 2013

D. Money in the Short Run: Informational and Portfolio Rigidity

- [Imperfect Information \(Lucas Island Model, Lucas 1972 JET\)](#)
- [Limited Participation Model](#)
- Imperfect Competition and Sticky price
- [Walsh, Chapter 5](#)
- Romer, Chapter 6
- Woodford, Chapter 3
- Ball L. and D. Romer, 1990, "Real Rigidities and the Non-Neutrality of Money", *Review of Economic Studies*.
- [Christiano, L. M. Eichenbaum, and C. Evans, "Sticky Price and Limited Participation Models: A Comparison", *European Economic Review*, 1997, 41, 1201-1249.](#)

E. Money in the Short Run: Nominal Price and Wage Rigidity

- [Fischer Model and Taylor Model](#)
- CKM model and Calvo Model
- Time dependent Model and State dependent Model
- [Walsh, Chapter 6](#)
- [Calvo, "Staggered Prices in a Utility Maximizing Framework", *Journal of Monetary Economics*, 1983, 12, 383-98.](#)
- Taylor, J. (1999), "Staggered Price and Wage Setting in Macroeconomics", in Taylor and Woodford, eds. Handbook of Macroeconomics,
- [Chari, V.V., P.J. Kehoe and E. McGratten, "Sticky Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problem?", *Econometrica*, 2000, 68, 1151-1179.](#)
- [Christiano, L., M. Eichenbaum, and C. Evans "Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy", *Journal of Political Economy*, 2005.](#)
- [Mankiw N. G., and R. Reis "Sticky Information Versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve", 2002, *Quarterly Journal of Economics*.](#)

F. Optimal Monetary Policy with Sticky Prices: New Keynesian Monetary Economics

- [Walsh, Chapter 8](#)
- [Clarida, R., J. Gali, and M. Gertler, "The Science of Monetary Policy: A New Keynesian Perspective", 1999, Journal of Economic Literature.](#)
- Khan, A., King R.G., and A. Wolman, "Optimal Monetary Policy", 2003 Review of Economic Studies.
- King, R. G., A. Wolman, "What Should Monetary Policy Do When Prices are Sticky?", in Taylor, J.B. (ed) 1999, Monetary Policy Rules.
- Erceg, C., D. Henderson, and A. Levin "Optimal Monetary Policy with Staggered Price and Wage Contracts", 2000, Journal of Monetary Economics.
- Ireland, P. "The Role of Countercyclical Monetary Policy", 1996, Journal of Political Economy.

G. Time Consistency and Policy

- [Walsh, Chapter 7](#)
- [Kydland Finn and Edward Prescott, "The Inconsistency of Optimal Plans," Journal of Political Economy, Vol. 85, 1977: 473–492.](#)
- [Note on Time Consistency](#)
- [Fischer Stanley, "Dynamic Inconsistency, Cooperation, and the Benevolent Disassembling Government," Journal of Economic Dynamics and Control, Vol. 2, 1980: 93–107.](#)
- [Blanchard interview Fischer, 2004.](#)
- Barro Robert and David Gordon, "Rules, Discretion and Reputation in a Model of Monetary Policy," Journal of Monetary Economics, Vol. 12, 1983: 101–121.
- [Note on Barro and Gordon](#)
- Rogoff, Kenneth, "The Optimal Degree of Commitment to an Intermediate Monetary Target," Quarterly Journal of Economics, Vol. 85, 1985: 1169–1189.
- Albanesi, S. V. V. Chari and L. Christiano, "Expectations Traps and Monetary Policy", 2003, Review of Economic Studies
- Barro, R. G. and D. Gordon, "A Positive Theory of Monetary Policy in a Natural Rate Model", 1983, Journal of Political Economy.
- Calvo, G, "On the time-inconsistency of Optimal Policy in a Monetary Economy," 1978, Econometrica 46, Pg. 1411-1428.
- Ireland, P. "Sustainable Monetary Policies", 1997, Journal of Economic Dynamics and Control,
- Lucas, R.E. and N. Stokey, "Optimal Fiscal and Monetary Policy in an Economy without Capital", 1983, Journal of Monetary Economics.

H. Money and the Open economy

- [Walsh, Chapter 9](#)
- [Obstfeld, M. and K. Rogoff, "Exchange Rate Economics: Redux" 1995, Journal of Political Economy.](#)
- [Chari, V. V., P.J. Kehoe, and E. McGratten, "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?", 2002, Review of Economic Studies.](#)
- Obstfeld, M. and K. Rogoff, "Global Implications of Self-Oriented Monetary Policy", 2002, Quarterly Journal of Economics.
- Devereux, M. and C. Engel, "Monetary Policy in the Open Economy Revisited", 2003, Review of Economic Studies.
- Gali, J. and T. Monacelli, "Optimal Monetary Policy in an Open Economy", 2005, Review of Economic Studies.

I. Re-interpretations

- Cochrane, John H. "Money as stock." Journal of Monetary Economics 52.3 (2005): 501-528.
- Buiter, Willem H. "The fiscal theory of the price level: A critique." The Economic Journal 112.481 (2002): 459-480.
- Sims, Christopher A. "A simple model for study of the determination of the price level and the interaction of monetary and fiscal policy." Economic theory 4.3 (1994): 381-399.