Yale University
Department of Economics

General Economic Theory
Macroeconomics (Econ 511)

Eduardo Engel
Second Half. Spring 2013.

Monetary Theory and Policy

This version: January 14, 2013.

Course Description: Provide an introduction to monetary theory, the connection between monetary theory and modern theories of short-run fluctuations (real business cycle theory and sticky price theories), and the conduct of monetary policy (monetary policy rules, advantages of credible policy commitments).

Textbook: The main reference is Michael Woodford's *Interest and Prices*, Princeton University Press, 2003. Additional references are *Monetary Theory and Policy*, 3rd edition, by Carl Walsh and *Monetary Policy, Inflation and the Business Cycle* by Jordi Galí.

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Teaching Fellow: Tommaso Porzio tommaso.porzio@yale.edu.

Grading: The grade for this part of the course will be based 90% on a written, closed-book examination and 10% on weekly problem sets. The score will be averaged with the score from the first half to obtain the overall grade for the course. Collaboration on problem sets is allowed, but each student must write up her own solution.

Meeting Times: The class meets from 4:00 to 5:20 on Mondays and 9:00 to 10:20 on Tuesdays and Thursdays (see table below, including an exceptional meeting on a Friday).

	Monday 4:00–5:20	Monday 5:30–6:30	Tuesday 9:00–10:20	Thursday 9:00–10:20	Friday 4:00–6:30
January	14	14	15	17	18
	Lecture 1	—	Lecture 2	Lecture 3	Disc. Sect. 1
	21	21	22	24	25
	—	—	Lecture 4	Lecture 5	—
	28	28	29	31	
	Lecture 6	Disc. Sect. 2	Lecture 7	Lecture 8	
February	4	4	5	7	8
	Lecture 9	Disc. Sect. 3	Lecture 10	Lecture 11	—
	11	11	12	14	15
	Lecture 12	Disc. Sect. 4	Lecture 13	—	—
	18	18	19	21	22
	Disc. Sect. 5	—	—	Disc. Sect. 6	
	25	25			
	Midterm	Midterm	Moscarini	Moscarini	

Syllabus

Lectures 1 and 2. Time-series for Macroeconomists.

Lectures 3. Evidence on the Effects of Monetary Disturbances.

Lectures 4 and 5. Staggered Pricing and the Dynamic Response to a Monetary Disturbance.

Lectures 6 and 7. Microfoundations for the New Keynesian Framework

Lecture 8. General Equilibrium in the New Keynesian Framework.

Lectures 9 and 10. The Conduct of Monetary Policy.

Lecture 11. Advantages of Credible Policy Commitments.

Lectures 12 and 13. State-dependent Pricing Models and Sticky Information Models.

Reading List

* indicates required reading. Other readings are suggested but not required.

Lectures 1, 2 and 3

*L.J.Christiano, M.Eichenbaum and C.Evans, "Monetary Policy Shocks: What Have We Learned and to What End?," in J. Taylor and M. Woodford (eds.), *Handbook of Macroeconomics*, Vol 1A, Amsterdam: Elsevier North-Holland, 65–148, 1999.

L.J.Christiano, M.Eichenbaum and C.Evans, "Nominal Rigidities and the Dynamic Effects of a Shock of Monetary Policy," *JPE*, 2005.

M.Bils and P.Klenow, "Some Evidence on the Importance of Sticky Prices," *J. of Political Economy*, **112**, 947–985, 2004.

E.Nakamura and J.Steinsson, "Five Facts About Prices: A Reevaluation of Menu Cost Models," Harvard University, mimeo, 2007.

*P.Klenow and B. Malin, "Microeconomic Evidence on Price-Setting," in *Handbook of Monetary Economics*, B.Friemdan and M.Woodford (eds), vol. 3, ch. 6, 231-284, Elsevier. 2010.

Walsh, chap. 1.

Lectures 4, 5, 6 and 7

*Woodford, chaps. 3.1 and 3.2

Walsh, secs. 5.3 and 5.4.

Galí, chap. 3.

Walsh, sec. 5.4.

V.V.Chari, P.J.Kehoe and E.R.McGrattan, "Sticky-Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problem?", *Econometrica*, 2000.

T.Cogley and A.Sbordone, "Trend Inflation, Indexation, and Inflation Persistence in the New Keynesian Phillips Curve," *American Economic Review*, **98**, 5, 2101–2126, December 2008.

Lecture 8

*Woodford, chap. 4 secs. 1, 2.1, 2.2.

Galí, chap. 3.

Walsh, chap. 5.4.

Lectures 9 and 10

M.Friedman, "The Role of Monetary Policy," *AER*, 1968.

*R.E.Lucas, "Econometric Policy Evaluation: A Critique," *Carnegie-Rochester Conference Series on Public Policy*, **1**: 19–46, 1976. Reprinted in Lucas, *Studies of Business Cycle Theory*, Cambridge, Mass.: MIT Press, 1981. Read especially sec. 5.3.

*Woodford, chap. 6.1–6.3.

*Galí, chap. 4.

*J.B.Taylor, "A Historical Analysis of Monetary Policy Rules," *Handbook of Macroeconomics*, Vol 1B, Amsterdam: Elsevier North-Holland, 1999, 1009–1050. NBER Working Paper available on the course website.

R.Clarida, J.Galí and M.Gertler, "Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory," *QJE*, 2000.

A.Orphanides, "Monetary Policy Rules, Macroeconomic Stability and Inflation: A View from the Trenches," *J. of Money, Credit and Banking* **36**: 151–175 2004.

Lecture 11

F.E.Kydland and E.C.Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *JPE*, 1997.

*Woodford, chap. 7.1.

*R.Clarida, J.Galí and M.Gertler, "The Science of Monetary Policy: A New Keynesian Perspective," *JEL*, 1999.

Walsh, chap. 8 and chap. 11.3.

Galí, chap. 5.

Lectures 12 and 13

A.Caplin and D.Spulber, "Menu Costs and the Neutrality of Money," *Quarterly Journal of Economics*, **102**, 703–26, 1997.

M.Golosov and R.E.Lucas, "Menu Costs and Phillips Curves," *JPE*, 2007.

V.Midrigan, "Menu Costs, Multi-product Firms, and Aggregate Fluctuations," NYU, mimeo, 2006.

N.G.Mankiw and R.Reis, "Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve," *Quarterly Journal of Economics*, **117**, 1295–1328, 2002.

N.G.Mankiw and R.Reis, "Pervasive Stickiness," Expanded version, NBER Working Paper No. 12024, February 2006.

R.Caballero and E.Engel, "Price Stickiness in *Ss* Models: New Interpretations of Old Results," *J. of Monetary Economics*, **54**, 100–121, 2007.