Econ 820
Advanced Macroeconomics and Monetary Theory
Spring 2013

Neville Francis, 06g Gardner Hall   Email: nfrancis@unc.edu
Phone: 966-5327 (office)

Course Goals
Students should reach an understanding of monetary theory and policy substantially deeper than they attained in Econ 720-721. The course covers both closed and open economy models

Text and Frequently Cited References
(CW)   Walsh, Carl E., *Monetary Theory and Policy, Second Edition*, The MIT Press, Cambridge, MA, 2003, Course text
(TW)   Taylor, John and Michael Woodford, eds., *Handbook of Macroeconomics*, Elsevier Science Publishers, New York, 1999
(MW)   Woodford, Michael, Interest and Prices: Foundations of a Theory of Monetary Policy, Princeton University Press, Princeton, NJ, 2003.
(FG)   Froyen, Richard and Alfred Guender, Monetary Policy in Open and Closed Economies, book draft, 2005

Dates
Final Exam   Date set by registrar
Project Due   Students who wish to receive a letter grade by the end of the semester should turn in their project paper at the final exam date.

Examinations and Grades
Grades will be based on a final exam (67%) and a course project (33%).

Course Project
Students who elect the standard course project will select, with the instructors' help, several papers in an area of interest to them, write individual summary of each paper and write a ten page overview. The overview should explain the question(s) addressed by the readings, the answers they provide, and unanswered questions worthy of further work. Students may negotiate an alternative project with the instructors. In the past, some students have chosen to reproduce numerical research described in Walsh. Others have written term papers on an issue that they want to explore as a potential thesis topic.

Overview
General Discussion

Does Money Affect Output? A Look at Empirical Evidence
CW, Chapter 1

Christiano, Lawrence, Martin Eichenbaum, and Charles L. Evans, "Monetary Policy Shocks: What Have We Learned And To What End?" (TW) Chapter 2.

McCandless, G. T. and W. E. Weber, "Some Monetary Facts," *Federal Reserve Bank of Minneapolis Quarterly Review*, 19 (3), 1995, 2-11.

*   Sims, C., "Comparison of Interwar and Postwar Business Cycles: Monetarism Reconsidered," American Economic Review, 70 (2), 1980, 250-57.

*   Sims, C. A., "Interpreting the Macroeconomic Time Series Facts: The Effects of Monetary Policy," *European Economic Review*, 36 (5), 1992, 975-1000.

Why Does Money Affect Output?
Blanchard, Olivier, "Why Does Money Affect Output?" Friedman, Benjamin M. and F.H. Hahn (eds.) Handbook of Monetary Economics, Vol. II. Amsterdam: Elsevier Science Publishers B.V., 1990, Chapter 15.

Lucas, R. E. Jr., "Nobel Lecture: Monetary Neutrality," *Journal of Political Economy*, 104 (4), 1996, 661-82.

Sargent, T. J., "The Observational Equivalence of Natural and Unnatural Rate Theories of Macroeconomics," *Journal of Political Economy*, 84 (3), 1976, 631-40

*   Campbell, John Y., "Asset Prices, Consumption, and the Business Cycle," TW, Chapter 19.

*   Samuelson, P. A. , "What Classical and Neo-classical Monetary Theory Really Was," *Canadian Journal of Economics*, 1 (1), 1968, 1-15.

Monetary Policy with High Frequency Data
Kuttner, Kenneth, "Monetary Policy Surprises and Interest Rates: Evidence from the Fed Funds Futures Market," Journal of Monetary Economics 47, (2001) 523-544

Cochrane, John and Monika Piazzesi, "Asset Prices and Monetary Policy: The Fed and Interest Rates – A High Identification," AER Papers and Proceedings, May 2002

Faust, John, Eric Swanson and Jonathan Wright, "Identifying VARs Based on High Frequency Futures Data," Journal of Monetary Economics 51 (2004) 1107-1131

Poole, William and Robert Rasche, "Perfecting the Market's Knowledge of Monetary Policy," Journal of Financial Services Research 18:2/3 (2000) 255-298

Piazzesi, Monika and Eric Swanson, "Futures Prices and Risk-Adjusted Forecasts of Monetary Policy," *Journal of Monetary Economics* 2008, 55, May issue, pp. 677-691.

Woodford, Michael, "Monetary Policy in the Information Economy," NBER Working Paper 8674

Hamilton, James, "Daily Changes in the Fed Funds Futures Prices," *Journal of Money, Credit, and Banking* June 2009, vol. 41, no. 4, pp. 567-582

Representative Agent Models with Money in the Utility Function
CW, Chapter 2

MW, Chapter 2.

Orphanides, A and R. Solow, "Money, Inflation and Growth," Chapter 6 in Friedman, Benjamin and Frank Hahn, *Handbook of Monetary Economics*, North-Holland, 1990

Tobin, J., "Money and Economic Growth," *Econometrica*, 33 (4, part 2), 1965, 671-84.

Two Approaches to Modeling Monetary Transactions
CW, Chapter 3

Kiyotaki, N. and R. Wright , "A Search-Theoretic Approach to Monetary Economics," *American Economic Review*, 83, 1, 1993, 63-77.

Ostroy, J. M. and R. M. Starr, "The Transactions Role of Money," Friedman and Hahn, *op. cit.*, Chapter 1

* Benassy, J., "Non-Walrasian Equilibrium, Money and Macroeconomics," Friedman and Hahn, *op. cit.*, Chapter 4.

* Friedman, M., "The Quantity Theory of Money: A Restatement," in Friedman, M. (ed.), *Studies in the Quantity Theory of Money*, University of Chicago Press, Chicago, 1956, 3-24.

* Townsend, Robert M., "Models of Money with Spatially Separated Agents," in Kareken, John and N. Wallace, editors, *Models of Monetary Economies*, Fed. Minneapolis, 1980, 265-304.

The Interaction between Money and Public Finance
CW, Chapter 4

Sargent, Thomas and Neil Wallace, "Some Unpleasant Monetarist Arithmetic," in Sargent, Thomas, *Rational Expectations and Inflation*, Harper and Row, New York, 1986, 158-190.

Sargent, Thomas, "Reagonomics and Credibility, Chapter 2 in Sargent, Thomas, *Rational Expectations and Inflation*, Harper and Row, New York, 1986, 19-39.

Micro-founded, Short Run Model of Output and Inflation
CW, Chapter 5

MW, Chapter 3

Calvo, Guillermo A., "Staggered Prices in a Utility-maximizing Framework," *Journal of Monetary Economics*, 12, 1983, 383-98

Cogley, Timothy and Thomas Sargent, "Evolving Post World War II U.S. Inflation Dynamics,"

NBER Macroeconomics Annual 16, April 2002.

- _____, "Drifts and Volatilities: Monetary Policy and Outcomes in the Post WWII US," Review of Economic Dynamics, 8, 2005, 262-302.

* Fuhrer, Jeffrey C. and George R. Moore, "Inflation persistence," *Quarterly Journal of Economics*, February, 1995, 129-59.

* Gali, Jordi and Mark Gertler, "Inflation Dynamics: A Structural Econometric Analysis," *Journal of Monetary Economics* 44, 1999, 195-222.

- Lucas, R., "Expectations and the Neutrality of Money," *Journal of Economic Theory*, 4 (2), 1972, 103-24.

Strategies for Solving Linear Rational Expectations Models

Blanchard, Olivier J. and Charles M. Kahn, "The solution of linear difference models under rational expectations," *Econometrica*, 48 (5), 1980, 1305-12

Klein, Paul, "Using the generalized Schur form to solve a multivariate linear rational expectations model," *Journal of Economic Dynamics and Control*, 24, 2000, 1405-23

* Anderson, Evan, Lars P. Hansen, Ellen R. McGrattan, and Thomas J. Sargent, "Mechanics of forming and estimating dynamic linear economies," in, Amman, Hans M., David A. Kendrick, and John Rust, eds., *Handbook of Computational Economics* 1, Handbooks in Economics 13, Elsevier Science, North-Holland, Amsterdam, 1996, 171-252.

* Soderlind, Paul, "Lecture notes: Solving linear expectational difference equations," Stockholm School of Economics, 1999.

* Uhlig, Harald, "A toolkit for analyzing nonlinear dynamic stochastic models easily," Discussion Paper 101, Federal Reserve Bank of Minneapolis, June, 1995.

Policy Analysis in New Keynesian Models

CW, Chapter 11

MW, Chapters 1 and 4-6

* _____, Firm-Specific Capital, Nominal Rigidities, and the Business Cycle, NBER Working Paper 11034, January 2005.

Christiano, Eichenbaum, and Evans, "Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy," *Journal of Political Economy*, 113 (1), 2005, 1-45.

Eichenbaum, Martin and Jonas Fisher, "Evaluating Calvo-Style Sticky Price Models," Working Paper, March, 2005

* Fuhrer, Jeffrey C., "Inflation/output variance trade-offs and optimal monetary policy," *Journal of Money Credit and Banking* 29, 1997, 214-234.

* Fuhrer, Jeffrey C. and George R. Moore, "Monetary policy trade-offs and the correlation between nominal interest rates and real output," *American Economic Review* 85, 1995, 219-239.

*   McCallum, Bennett T. and Edward Nelson, "An optimizing IS-LM Specification for Monetary Policy and Business Cycle Analysis," *JMCB*, 31 (3, Part 1), 1999, 277-431

*   Rotemberg, Julio J. and Michael Woodford, "An optimization-based econometric framework for the evaluation of monetary policy," in Bernanke, Ben S. and Julio J. Rotemberg, eds., *NBER Macroeconomics Annual 1997*, MIT Press, Cambridge, MA, 1997, 297-346.

       Salemi, Michael K., "Monetary Policy Evaluation and Inverse Control," July 2005, forthcoming in the *JMCB*

Fun Stuff

Bernanke and Gertler, NBER working papers 1995, "Inside the black box: The credit channel of monetary policy transmissions".

Black and Rosen (2011), "The Effect of Monetary Policy on the Availability of Credit: How the Credit Channel Works"

Ricardo Reis "The mystique surrounding the central bank's balance sheet, applied to the European crisis"

Mishkin (2009), "Is Monetary Policy Effective during Financial Crises?" (AER, 2009)

Christiano, Gust, & Roldos (2004), "Monetary policy in a financial crisis" (JET, 2004)

Gambacorta and Marques-Ibanez, "The bank lending channel: lessons from the crisis"

Lawrence Christiano, Roberto Motto and Massimo Rostagno, "Risk Shocks"

Ben Bernanke, Mark Gertler, and Simon Gilchrist, "The Financial Accelerator in a Quantitative Business Cycle Framework"

Fraga, Goldfajn, Minella (2004), Inflation Targeting in Emerging Market Economies

Miskin (2000), Inflation Targeting in Emerging Market Countries

Jonathan Wright, "What does Monetary Policy do to Long-Term Interest Rates at the Zero Lower Bound?"

Andrew Ang, Jean Boivin, Sen Dong and Rudy Loo-Kung (2009), "Monetary Policy Shifts and the Term Structure"

John Williams (2010), "The Zero Lower Bound: Lessons from the Past Decade"