

Barcelona Macroeconomics Summer School 2006

Modern Perspectives on Monetary Policy (I): Basic Models and Theory

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This part of the course will provide an introduction to the baseline New Keynesian model, including an analysis of its implications for the optimal design of monetary policy, the evaluation of simple rules, and its predictions regarding the dynamics of inflation. Lecture notes will be handed out during the course. A list of topics covered, together with a basic reading list with some of the key articles for each topic is provided below.

The Basic New Keynesian Model

King, Robert G., and Alexander L. Wolman (1996): "Inflation Targeting in a St. Louis Model of the 21st Century," *Federal Reserve Bank of St. Louis Review*, vol. 78, no. 3. (NBER WP #5507).

Walsh, Carl E. (2003): *Monetary Theory and Policy*, Second Edition, MIT Press, chapter 5.4

Woodford, Michael (2003): *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, chapter 4.

Yun, Tack (1996): "Nominal Price Rigidity, Money Supply Endogeneity, and Business Cycles," *Journal of Monetary Economics* 37, 345-370.

Monetary Policy Design in the New Keynesian Model

Clarida, Richard, Jordi Galí, and Mark Gertler (1999): "The Science of Monetary Policy: A New Keynesian Perspective," *Journal of Economic Literature*, vol. 37, no. 4, 1661-1707.

Galí, Jordi (2003): "New Perspectives on Monetary Policy, Inflation, and the Business Cycle," in *Advances in Economics and Econometrics*, volume III, edited by M. Dewatripont, L. Hansen, and S. Turnovsky, Cambridge University Press (also available as NBER WP #8767).

Woodford, Michael (2003): *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, chapter 6 (also available as NBER WP# 8071).

Rotemberg, Julio and Michael Woodford (1999): "Interest Rate Rules in an Estimated Sticky Price Model," in J.B. Taylor ed., *Monetary Policy Rules*, University of Chicago Press.

Woodford, Michael (2001): "The Taylor Rule and Optimal Monetary Policy," *American Economic Review* 91(2): 232-237 (2001).

Clarida, Richard, Jordi Galí, and Mark Gertler (2000): "Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory," *Quarterly Journal of Economics*, vol. 105, issue 1, 147-180.

Galí, Jordi, J. David López-Salido, and Javier Vallés (2003): “Technology Shocks and Monetary Policy: Assessing the Fed’s Performance,” *Journal of Monetary Economics*, vol. 50, no. 4., 723-743.

Orphanides, Athanasios (2003): “The Quest for Prosperity Without Inflation,” *Journal of Monetary Economics* 50, 633-663

Taylor, John B. (1998): “An Historical Analysis of Monetary Policy Rules,” in J.B. Taylor ed., *Monetary Policy Rules*, University of Chicago Press.

Benhabib, Jess, Stephanie Schmitt-Grohe, and Martin Uribe (2001): “The Perils of Taylor Rules,” *Journal of Economic Theory* 96, 40-69.

Bullard, James, and Kaushik Mitra (2002): “Learning About Monetary Policy Rules,” *Journal of Monetary Economics*, vol. 49, no. 6, 1105-1130.

Levin, Andrew, Volker Wieland, and John C. Williams (2003): “The Performance of Forecast-Based Monetary Policy Rules under Model Uncertainty,” *American Economic Review*, vol. 93, no. 3, 622-645.

Inflation Dynamics: Theory and Evidence

Fuhrer, Jeffrey C., and George R. Moore, 1995a, “Inflation Persistence”, *Quarterly Journal of Economics*, No. 440, February, pp 127-159.

Mankiw, N. Gregory and Ricardo Reis (2002): “Sticky Information vs. Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve,” *Quarterly Journal of Economics*, vol. CXVII, issue 4, 1295-1328.

Galí, Jordi and Mark Gertler (1998): “Inflation Dynamics: A Structural Econometric Analysis,” *Journal of Monetary Economics*, vol 44, no. 2, 195-222.

Galí, Jordi, Mark Gertler, David López-Salido (2001): “European Inflation Dynamics,” *European Economic Review* vol. 45, no. 7, 1237-1270.

Galí, Jordi, Mark Gertler, David López-Salido (2003): “Robustness of the Estimates of the Hybrid New Keynesian Phillips Curve,” *Journal of Monetary Economics*, vol. 52, no. 6, 1107-1118

Sbordone, Argia (2002): “Prices and Unit Labor Costs: Testing Models of Pricing Behavior,” *Journal of Monetary Economics*, vol. 45, no. 2, 265-292.

Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans (2001): “Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy,” NBER WP#8403.

Smets, Frank, and Raf Wouters (2003): “An Estimated Dynamic Stochastic General Equilibrium Model of the Euro Area,” *Journal of the European Economic Association*, vol 1, no. 5, 1123-1175.

Erceg, Christopher, and Andrew Levin (2003): “Imperfect Credibility and Inflation Persistence,” *Journal of Monetary Economics*, vol. 50, no. 4., 915-944.