

Barcelona Macroeconomics Summer School 2006

Modern Perspectives on Monetary Policy (II): Advanced Topics

July 3 - July 7, 2006

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This part of the course takes for granted the student's familiarity with the New Keynesian model, and focuses on several extensions of that framework. 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.

Background: 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, chapters 4 and 6

Monetary Policy and Labor Market Imperfections

a. Nominal and Real Wage Rigidities

Blanchard, Olivier J. and Jordi Galí (2006): "Real Wage Rigidities and the New Keynesian Model," *Journal of Money, Credit, and Banking*, forthcoming.

Erceg, Christopher J., Dale W. Henderson, and Andrew T. Levin (2000): "Optimal Monetary Policy with Staggered Wage and Price Contracts," *Journal of Monetary Economics* vol. 46, no. 2, 281-314.

Giannoni, Marc P., and Michael Woodford (2003): "Optimal Inflation Targeting Rules," in B. Bernanke and M. Woodford, eds. *The Inflation Targeting Debate*, Chicago, Chicago University Press. (also NBER WP# 9939).

Huang, Kevin X. D., and Zheng Liu. (2002): "Staggered Price-Setting, Staggered Wage-Setting and Business Cycle Persistence," *Journal of Monetary Economics*, vo. 49, 405-433.

Woodford, Michael (2003): *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, chapters 3.4 and 8.2

b. Background: Real Models of Labor Market Flows

Andolfatto, David (1996): "Business Cycles and Labor Market Search," *American Economic Review*, 86-1, 112-132

Gertler, Mark, and Antonella Trigari (2005), "Unemployment Fluctuations with Staggered Nash Wage Bargaining," mimeo, November.

Hall, Robert (2005): "Employment Fluctuations with Equilibrium Wage Stickiness," *American Economic Review* vol. 95, no. 1, 50-64.

Krause, Michael, Thomas Lubik (2005): "The (Ir)relevance of Real Wage rigidities in the New Keynesian Model with Search Frictions," mimeo.

Merz, Monica (1995), "Search in the Labor Market and the Real Business Cycle", *Journal of Monetary Economics*, 36, 269-300

Pissarides, Christopher (2000): *Equilibrium Unemployment Theory*, MIT Press.

Shimer, Robert (2005): "The Cyclical Behavior of Equilibrium unemployment and Vacancies," *American Economic Review* vol. 95, no. 1, 25-49.

c. Labor Market Flows in the New Keynesian Model

Andrés, Javier, Rafael Domenech, and Javier Ferri (2006): "Price Rigidity and the Volatility of Vacancies and Unemployment," mimeo, Universidad de Valencia.

Blanchard, Olivier J. and Jordi Galí (2006): "A New Keynesian Model with Unemployment," mimeo.

Christoffel, Kai, and Tobias Linzert (2005): "The Role of Real Wage Rigidities and Labor Market Frictions for Unemployment and Inflation Dynamics", Discussion Paper 556, European Central Bank

Trigari, Antonella (2005): "Equilibrium Unemployment, Job Flows, and Inflation Dynamics," ECB WP#304.

Trigari, Antonella (2006): "The Role of Search Frictions and Bargaining of Inflation Dynamics", mimeo.

Walsh, Carl (2003): "Labor Market Search and Monetary Shocks", in *Elements of Dynamic Macroeconomic Analysis*, S. Altug, J. Chadha and C. Nolan eds.

Walsh, Carl (2005): "Labor Market Search, Sticky Prices, and Interest Rate Rules", *Review of Economic Dynamics*, 8, 829-849

Monetary Policy and the Open Economy

a. Basic Open Economy New Keynesian Models

Benigno, Gianluca, and Benigno, Pierpaolo (2003): "Price Stability in Open Economies," *Review of Economic Studies*, vol. 70, no. 4, 743-764.

Benigno, Pierpaolo (2004): "Optimal Monetary Policy in a Currency Area," *Journal of International Economics*, vol. 63, issue 2, 293-320.

Clarida, Richard, Jordi Galí, and Mark Gertler (2002): "A Simple Framework for International Monetary Policy Analysis," *Journal of Monetary Economics*, vol. 49, no. 5, 879-904.

Galí, Jordi, and Tommaso Monacelli (2005): "Monetary Policy and Exchange Rate Volatility in a Small Open Economy," *Review of Economic Studies*, vol. 72, issue 3, 2005, 707-734.

b. Limited Pass-Through

Corsetti, Giancarlo, Luca Dedola, and Sylvain Leduc (2006): “DSGE Models with High Exchange Rate Volatility and Low Pass Through,” mimeo.

Monacelli, Tommaso (2005), “Monetary Policy in a Low Pass Through Environment,” *Journal of Money Credit and Banking*, Vol. 37, no. 6. 1047-1066.

c. Currency Unions

Beetsma, Roel M.W.J., and Henrik Jensen (2005): “Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union,” *Journal of International Economics*, vol. 67, 320-352.

Benigno, Pierpaolo (2004): “Optimal Monetary Policy in a Currency Area,” *Journal of International Economics*, vol. 63, issue 2, 293-320.

Gali, Jordi, and Tommaso Monacelli (2005): “Optimal Monetary and Fiscal Policy in a Currency Union,” mimeoErceg, Christopher J., Luca Guerrieri,

d. Medium Scale Open Economy Models for Policy Analysis

Christopher Gust (2006): “SIGMA: A New Open Economy Model for Policy Analysis,” Board of Governors, International Finance Discussion Papers no. 835

Coenen, Günter, Peter McAdam, Roland Struab (2006): “Tax Reform and Labour Market Performance in the Euro Area: A Simulation-Based Analysis using the New Area-Wide Model,” mimeo.

Bayoumi, Tam (2004): “GEM: A New International Macroeconomic Model” IMF Occasional Paper no. 239.