

Barcelona Macroeconomics Summer School 2007

Monetary Policy and Labor Market Imperfections

June 18-22, 2007
Professor Jordi Galí

The course will discuss recent research exploring the monetary policy implications of the coexistence of sticky prices with a variety of labor market imperfections. We will take for granted the student's familiarity with the basic New Keynesian model. Lecture notes will be handed out during the course. A list of topics covered, together with a basic reading list for each topic is provided below.

a) Background: the Basic 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 (2007): *Monetary Policy, Inflation, and the Business Cycle*, chapters 3-5.

Woodford, Michael (2003): *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, chapters 4 and 6

b) Nominal and Real Wage Rigidities

Blanchard, Olivier J. and Jordi Galí (2007): "Real Wage Rigidities and the New Keynesian Model," *Journal of Money, Credit, and Banking*, supplement to volume 39, no. 1, 35-66.

Blanchard, Olivier J. and Jordi Galí (2007): "The Macroeconomic Effects of Oil Price Shocks: Why are the 2000s so Different from the 1970s?," mimeo.

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.

Galí, Jordi (2007): *Monetary Policy, Inflation, and the Business Cycle*, chapter 6.

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).

Woodford, Michael (2003): *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, chapters 3.4, 6.4, and 8.2

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

Faia, Ester (2006): "Optimal Monetary Policy Rules in a Model with Labor Market Frictions," ECB WP#698

Krause, Michael, Thomas Lubik (2007): "The (Ir)relevance of Real Wage rigidities in the New Keynesian Model with Search Frictions," *Journal of Monetary Economics*, vol. 54, no.3, 706-727.

Thomas, Carlos (2007): "Search and Matching Frictions and Optimal Monetary Policy," London School of Economics, mimeo.

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

Background Readings: 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.

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.