

Barcelona Macroeconomics Summer School 2008

**An Introduction to the New Keynesian Framework  
and its Monetary Policy Applications**

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Professor Jordi Galí  
CREI and UPF

The course will provide an introduction to the recent literature on monetary aspects of the business cycle, with a special emphasis on the New Keynesian model, its associated inflation dynamics, and its implications for monetary policy. The list of topics covered, together with a basic reading list is provided below. The main reference for the course is:

Galí, Jordi (2008): *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*, Princeton University Press

**The Basic New Keynesian Model**

A baseline model for monetary policy analysis. The new Keynesian Phillips curve. The output gap and the natural rate of interest. The effects of monetary policy shocks. The effects of technology shocks.

Galí, Jordi (2008): *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*, chapter 3.

Walsh, Carl E. (2003): *Monetary Theory and Policy*, Second Edition, MIT Press, chapter 5.

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.

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).

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

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.

Special issue of the *Journal of Monetary Economics* on "The Econometrics of the Pricing Equation," September 2005.

Galí, Jordi (1999): “Technology, Employment, and the Business Cycle: Do Technology Shocks Explain Aggregate Fluctuations?,” *American Economic Review*, vol. 89, no. 1, 249-271.

### **Monetary Policy Design in the Basic New Keynesian Model**

A benchmark case. Optimal monetary policy and its implementation. The Taylor Principle. Simple monetary policy rules. Second order approximation to welfare losses. Evidence on monetary policy rules.

Galí, Jordi (2008): *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*, Princeton University Press, chapter 4.

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

Yun, Tack (2005): “Optimal Monetary Policy with Relative Price Distortions” *American Economic Review*, vol. 95, no. 1, 89-109

Blanchard, Olivier and Charles Kahn (1980), “The Solution of Linear Difference Models under Rational Expectations”, *Econometrica*, 48, 1305-1311

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

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

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.

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.

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

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

### **Extensions of the Basic New Keynesian Model and their Implications for Monetary Policy**

Cost-push shocks. Nominal and real wage rigidities. Unemployment.

Galí, Jordi (2008): *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*, Princeton University Press, chapter 5-6.

Woodford, Michael (2003): *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, chapters 6-8.

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.

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.

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 (2008): “Labor Market Imperfections and Monetary Policy: A New Keynesian Model with Unemployment,” mimeo.

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).