

Universitat Pompeu Fabra
Spring 2015
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Topics in Macroeconomics VI: Reading List

The course will cover recent papers at the frontier of research in monetary economics. Students taking the course should already be familiar with modern monetary economics (at the level of Advanced Macro III). Students taking the course for credit are expected to write a short paper reviewing and extending some of the research discussed in class (due by the end of June).

1. Review of the New Keynesian Model

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 (2015): *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*, Second edition, Princeton University Press (Princeton, NJ), chapter 6.

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

2. Monetary Policy and Unemployment

Galí, Jordi (2015): *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*, Second edition, Princeton University Press (Princeton, NJ), chapter 7.

Galí, Jordi (2011): *Unemployment Fluctuations and Stabilization Policies: A New Keynesian Perspective*, MIT Press (Cambridge, MA).

Galí, Jordi (2011): "The Return of the Wage Phillips Curve," *Journal of the European Economic Association*, vol. 9, issue 3, 436-461.

Galí, Jordi, Frank Smets and Raf Wouters (2012): "Unemployment in an Estimated New Keynesian Model," *NBER Macroeconomics Annual 2011*, 329-360.

Galí, Jordi (2015): "Insider-Outsider Labor Markets, Hysteresis, and Monetary Policy," unpublished manuscript.

Blanchard, Olivier and Lawrence Katz (1999): "Wage Dynamics: Reconciling Theory and Evidence," *American Economic Review*, Vol. 89, No. 2, pp. 69-74

Phillips, A.W. (1958): "The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957," *Economica* 25, 283-299.

Smets, Frank, and Rafael 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.

Smets, Frank, and Rafael Wouters (2007): "Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach," *American Economic Review*, vol 97, no. 3, 586-606.

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 (2010): "Labor Markets and Monetary Policy: A New Keynesian Model with Unemployment," *American Economic Journal: Macroeconomics* 2 (2), 1-30.

Christiano, Lawrence J., Mathias Trabandt, and Karl Walentin (2010): "Involuntary Unemployment and the Business Cycle," NBER WP 15801.

Faia, Ester (2008): "Optimal Monetary Policy Rules in a Model with Labor Market Frictions," *Journal of Economic Dynamics and Control* 32(5), 1600-1621.

Faia, Ester (2009): "Ramsey Monetary Policy with Labor Market Frictions," *Journal of Monetary Economics* 56(4), 570-581.

Galí, Jordi (2011): "Monetary Policy and Unemployment," in B. Friedman and M. Woodford eds. *Handbook of Monetary Economics*, North-Holland, 487-546 (see also NBER WP#15871)

Gertler, Mark, Luca Sala and Antonella Trigari (2008): "An Estimated Monetary DSGE Model with Labor Market Frictions," *Journal of Money, Credit and Banking* 40 (8), 1713-1764.

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.

Krause, Michael, David López-Salido, and Thomas A. Lubik (2008): "Inflation Dynamics with Search Frictions: A Structural Econometric Analysis," *Journal of Monetary Economics* 55 (5), 892-916.

Ravenna, Federico and Carl Walsh (2011): "Welfare-Based Optimal Monetary Policy with Unemployment and Sticky Prices," *American Economic Journal: Macroeconomics* 3, 130-162.

Sveen, Tommy and Lutz Weinke (2008): "New Keynesian Perspectives on Labor Market Dynamics," *Journal of Monetary Economics* 55 (5), 921-930.

Thomas, Carlos (2008): "Search and Matching Frictions and Optimal Monetary Policy," *Journal of Monetary Economics* 55 (5), 936-956.

Trigari, Antonella (2009): "Equilibrium Unemployment, Job Flows, and Inflation Dynamics," *Journal of Money, Credit and Banking* 41 (1), 1-33.

Trigari, Antonella (2006): "The Role of Search Frictions and Bargaining in 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

3. Monetary Policy and Asset Prices

Bernanke, Ben S. and Mark Gertler (1999): "Monetary Policy and Asset Price Volatility," in *New Challenges for Monetary Policy*, Federal Reserve Bank of Kansas City, 77-128.

Bernanke, Ben S. and Mark Gertler (2001): "Should Central Banks Respond to Movements in Asset Prices?" *American Economic Review* 91(2), 253-257.

Bernanke, Ben S. (2002): "Asset Price Bubbles and Monetary Policy," speech before the New York Chapter of the National Association of Business Economists.

Borio, C. and P. Lowe (2002): "Asset Prices, Financial and Monetary Stability: Exploring the Nexus," BIS Working Papers no. 14.

Campbell, John (2008): *Asset Prices and Monetary Policy*, University of Chicago Press.

Cecchetti, Stephen G., Hans Gensberg, John Lipsky and Sushil Wadhvani (2000): *Asset Prices and Central Bank Policy*, Geneva Reports on the World Economy 2, CEPR.

Detken, Carsten and Frank Smets (2004): "Asset Price Booms and Monetary Policy," ECB Working Paper series no. 364.

European Central Bank (2005): "Asset Price Bubbles and Monetary Policy," *Monthly Bulletin*, April, 47-60.

European Central Bank (2010): "Asset Price Bubbles and Monetary Policy Revisited," *Monthly Bulletin*, November, 71-83.

Furlanetto, Francesco (2011): "Does Monetary Policy React to Asset Prices? Some International Evidence," *International Journal of Central Banking* 7(3), 91-111

Faia, Ester and Tommaso Monacelli (2007): "Optimal Interest Rate Rules, Asset Prices, and Credit Frictions," *Journal of Economic Dynamics and Control*, vol. 31, 3228-3254.

Galí, Jordi (2014): "Monetary Policy and Rational Asset Price Bubbles," *American Economic Review*, vol. 104(3), 721-752.

Galí, Jordi and Luca Gambetti (2015): "Estimating the Effects of Monetary Policy on Stock Market Bubbles," *American Economic Journal: Macroeconomics* 7(1), 233-257.

Galí, Jordi (2016): "Monetary Policy and Asset Price Bubbles in a New Keynesian Model," unpublished manuscript.

Gilchrist, Simon and John V. Leahy (2002): "Monetary Policy and Asset Prices," *Journal of Monetary Economics* 49, 75-97.

International Monetary Fund (2009): *World Economic Outlook*, October, chapter 3.

Kohn, Donald L. (2006): "Monetary Policy and Asset Prices," speech at an ECB colloquium on "Monetary Policy: A Journey from Theory to Practice," held in honor of Otmar Issing.

Kohn, Donald L. (2008): "Monetary Policy and Asset Prices Revisited," speech delivered at the Caton Institute's 26th Annual Monetary Policy Conference, Washington, D.C.

Rigobon, Roberto and Brian Sack (2004): "The impact of monetary policy on asset prices," *Journal of Monetary Economics* 51 (8), 1553-1575.

4. Monetary Policy and Fiscal Policy under the Zero Lower Bound

Krugman, Paul (1998): "It's Baaaack: Japan's Slump and the Return of the Liquidity Trap," *Brookings Papers on Economic Activity*, vol. 2, 137-187.

Eggertsson, Gauti, and Michael Woodford (2003): "The Zero Bound on Interest Rates and Optimal Monetary Policy," *Brookings Papers on Economic Activity*, vol. 1, 139-211.

Jung, Taehun, Yuki Teranishi, and Tsutomu Watanabe, (2005): "Optimal Monetary Policy at the Zero Interest Rate Bound," *Journal of Money, Credit and Banking* 37 (5), 813-835.

Galí, Jordi (2015): *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*, Second edition, Princeton University Press (Princeton, NJ), chapter 5.

Christiano, Lawrence, Martin Eichenbaum and Sergio Rebelo (2011): "When Is the Government Spending Multiplier Large?," *Journal of Political Economy* 119 (1).

Eggertsson, Gauti (2010): "What Fiscal Policy is Effective at Zero Interest Rates?" *NBER Macroeconomics Annual 2010*,

Adam, Klaus and Roberto Billi (2006): "Optimal Monetary Policy under Commitment with a Zero Bound on Nominal Interest Rates," *Journal of Money, Credit and Banking* 38, 1877-1905.

Adam, Klaus and Roberto Billi (2007): "Discretionary Monetary Policy and the Zero Bound on Nominal Interest Rates," *Journal of Monetary Economics* 54 (3), 728-752.

Nakov, Anton (2008): "Optimal and Simple Monetary Policy Rules with a Zero Floor on the Nominal Interest Rate," *International Journal of Central Banking* vol 4(2), 73-127.

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

Benhabib, Jess, Stephanie Schmitt-Grohe, and Martin Uribe (2001): "Avoiding Liquidity Traps," *Journal of Political Economy* vol. 110, no. 3, 535-563.

Mertens, Karel and Morten Ravn (2014): "Fiscal Policy in an Expectations-Driven Liquidity Trap," *Review of Economic Studies* 19(2), 109-127.

5. Other Recent Papers

Galí, Jordi and Tommaso Monacelli (2015): "Understanding the Gains from Wage Flexibility: The Exchange Rate Connection"

Kaplan, Gregg, Benjamin Moll, and Giovanni Violante (2015): "Monetary Policy according to HANK"

John Cochrane (2015): "Do High Interest Rates Raise or Lower Inflation?"

Garcia-Schmidt, Mariana and Michael Woodford (2015): "Are Low Interest Rates Deflationary? A Paradox of Perfect Foresight Analysis,"

Del Negro, Marco, Marc P. Giannoni, and Christina Patterson (2015) "The Forward Guidance Puzzle"

McKay, Alisdair, Emi Nakamura and Jon Steinsson (2015): "The Power of Forward Guidance Revisited"

McKay, Alisdair, Emi Nakamura and Jon Steinsson (2015): "The Discounted Euler Equation: A Note"

Gertler, Mark, and Peter Karadi (2011): "A Model of Unconventional Monetary Policy." *Journal of Monetary Economics* 58.1, 17-34.

Gertler, Mark, and Peter Karadi (2013): "QE 1 vs. 2 vs. 3...: A framework for analyzing large-scale asset purchases as a monetary policy tool." *International Journal of Central Banking* 9.1, 5-53.