1 Description

This course will focus on two fundamental issues in monetary economics: price level determination and the real effects of nominal disturbances. Attention will be given both to theoretical models and empirical evidence.

2 Evaluation

There will be weekly problem sets, which will be graded for completion. Students may work together, but must turn in individual solutions. There will also be a final exam. Problem sets and class participation will make up 50% of the final grade, and the exam will make up the remaining 50%.

3 Readings

The main reference for the course is: Woodford, Michael (2003) *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton: Princeton University Press, referred to as IP below. All required readings are marked with an asterisk. The rest are included as useful references for further study. Note: these readings are preliminary and subject to revision.
3.1 Money and Inflation

- *IP: Chapter 2, Section 3: “Price-Level Determination with Monetary Frictions.”
- Woodford, Michael (1986) “Stationary Sunspot Equilibria: The Case of Small Fluctuations around a Deterministic Steady State,” Mimeo, University of Chicago and New York University

3.2 Interest-Rate Rules

- *IP: Chapter 2, Section 1, “Price-Level Determination in a Cashless Economy,” Section 2 “Alternative Interest-Rate Rules,” and Section 4 “Self-Fulfilling Inflations and Deflations.”
• *Benhabib, Jess, Stephanie Schmitt-Grohé, and Martín Uribe (2002) “Avoiding Liq-

Macroeconomic Stability: Evidence and Some Theory,” *The Quarterly Journal of Eco-
nomics*, 115(1):147–180

• *Cochrane, John H. (2011a) “Determinacy and Identification with Taylor Rules,” *Jour-

• McCallum, Bennett T. (1981) “Price level determinacy with an interest rate policy

and Inflation: A View from the Trenches,” *Journal of Money, Credit and Banking*, 36(2):151–175

• Schmitt-Grohé, Stephanie and Martín Uribe (2000) “Price level determinacy and
monetary policy under a balanced-budget requirement,” *Journal of Monetary Eco-
nomics*, 45(1):211–246


guidelines for interest rate setting by the European central bank,” *Journal of Monetary
Economics*, 43(3):655–679

• *Woodford, Michael (2001b) “Monetary policy in the information economy,” *Proceed-

3.3 Fiscal Theory of the Price Level

• Burnside, Craig, Martin Eichenbaum, and Sergio Rebelo (2001) “Prospective Deficits


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• Cochrane, John H. (2011b) “Understanding policy in the great recession: Some un-

• Leeper, Eric M. (1991) “Equilibria under active and passive monetary and fiscal poli-


### 3.4 Real Effects of Monetary Policy

• *IP: Chapter 3, Section 1, “A Basic Sticky-Price Model,” and Section 2 “Inflation Dynamics with Staggered Price Setting.”*


3.5 Imperfect Knowledge

- *IP: Chapter 3, Section 3, “Delayed Effects of Nominal Disturbances on Inflation.”

3.6 Unconventional Monetary Policy


3.7 Neo-Fisherian Theory


• Wieland, Johannes F. (2016) “Are Negative Supply Shocks Expansionary at the Zero Lower Bound?,” Mimeo, University of California, San Diego