

# ECON 882-11: Topics in Monetary Economics

Department of Economics  
Duke University

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Lectures: M/W 1:25pm-2:40pm  
Classroom: Perkins 065 (classroom 2)  
Dates: 08/24/2015 - 10/08/2015  
Office Hours: W 4:30pm-5:30pm  
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## 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 25% of the final grade, and the exam will make up the remaining 75%.

## 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.”
- \*Cagan, Phillip (1956) “The Monetary Dynamics of Hyperinflation,” in M. Friedman (Ed.), *Studies in the Quantity Theory of Money*, Chapter 2, pp. 25–117, Chicago: University of Chicago Press
- Friedman, Milton (1968) “The Role of Monetary Policy,” *The American Economic Review*, 58(1):1–17
- Friedman, Benjamin M. (1999) “The Future of Monetary Policy: The Central Bank as an Army with Only a Signal Corps?,” *International Finance*, 2:321–338
- Friedman, Benjamin M. (2000) “Decoupling at the Margin: The Threat to Monetary Policy from the Electronic Revolution in Banking,” *International Finance*, 3(2):261–272
- Lucas, Robert E. Jr. (2014) “Liquidity: Meaning, Measurement, Management,” *Federal Reserve Bank of St. Louis Review*, 96(3):199–212
- Lucas, Robert E. Jr. and Juan Pablo Nicolini (2015) “On the stability of money demand,” *Journal of Monetary Economics*, Forthcoming
- McCandless, George T. Jr. and Warren E. Weber (1995) “Some Monetary Facts,” *Federal Reserve Bank of Minneapolis Quarterly Review*, 19(3):1–11
- \*Sargent, Thomas J. (1986) “The Ends of Four Big Inflations,” in *Rational Expectations and Inflation*, Chapter 3, pp. 43–115, New York: Harper Collins
- Sargent, Thomas J. and Neil Wallace (1975) ““Rational” Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule,” *Journal of Political Economy*, 83(2):241–254
- Woodford, Michael (1986) “Stationary Sunspot Equilibria: The Case of Small Fluctuations around a Deterministic Steady State,” Mimeo, University of Chicago and New York University
- \*Woodford, Michael (1998a) “Doing without Money: Controlling Inflation in a Post-Monetary World,” *Review of Economic Dynamics*, 1(1):173–219

### 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 (2001) “The Perils of Taylor Rules,” *Journal of Economic Theory*, 96(12):40–69

- \*Benhabib, Jess, Stephanie Schmitt-Grohé, and Martín Uribe (2002) “Avoiding Liquidity Traps,” *Journal of Political Economy*, 110(3):535–563
- \*Clarida, Richard, Jordi Galí, and Mark Gertler (2000) “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory,” *The Quarterly Journal of Economics*, 115(1):147–180
- \*Cochrane, John H. (2011a) “Determinacy and Identification with Taylor Rules,” *Journal of Political Economy*, 119(3):565–615
- McCallum, Bennett T. (1981) “Price level determinacy with an interest rate policy rule and rational expectations,” *Journal of Monetary Economics*, 8(3):319–329
- Orphanides, Athanasios (2004) “Monetary Policy Rules, Macroeconomic Stability, 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 Economics*, 45(1):211–246
- Taylor, John B. (1993) “Discretion versus policy rules in practice,” *Carnegie-Rochester Conference Series on Public Policy*, 39(1):195–214
- Taylor, John B. (1999) “The robustness and efficiency of monetary policy rules as 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,” *Proceedings of the Jackson Hole Economic Policy Symposium*, 25(1):297–370

### 3.3 Fiscal Theory of the Price Level

- Burnside, Craig, Martin Eichenbaum, and Sergio Rebelo (2001) “Prospective Deficits and the Asian Currency Crisis,” *Journal of Political Economy*, 109(6):1155–1197
- \*Cochrane, John H. (1999) “A Frictionless View of U.S. Inflation,” in *NBER Macroeconomics Annual 1999*, Volume 13, pp. 323–421, Cambridge: MIT Press
- \*Cochrane, John H. (2005) “Money as stock,” *Journal of Monetary Economics*, 52(3):501–528
- Cochrane, John H. (2011b) “Understanding policy in the great recession: Some unpleasant fiscal arithmetic,” *European Economic Review*, 55(1):2–30
- Leeper, Eric M. (1991) “Equilibria under active and passive monetary and fiscal policies,” *Journal of Monetary Economics*, 27(1):129–147

- Sims, Christopher A. (1994) “A simple model for study of the determination of the price level and the interaction of monetary and fiscal policy,” *Economic Theory*, 4:381–399
- Sims, Christopher A. (2011) “Stepping on a rake: The role of fiscal policy in the inflation of the 1970s,” *European Economic Review*, 55(1):48–56
- \*Woodford, Michael (1995) “Price-level determinacy without control of a monetary aggregate,” *Carnegie-Rochester Conference Series on Public Policy*, 43(1):1–46
- Woodford, Michael (1996) “Control of the Public Debt: A Requirement for Price Stability?,” Working Paper 5684, National Bureau of Economic Research
- Woodford, Michael (1998b) “Public Debt and the Price Level,” Unpublished Manuscript, Princeton University
- \*Woodford, Michael (2001a) “Fiscal Requirements for Price Stability,” *Journal of Money, Credit, and Banking*, 33(3):669–728

### 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.”
- Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans (1999) “Monetary policy shocks: What have we learned and to what end?,” in J. B. Taylor and M. Woodford (Eds.), *Handbook of Macroeconomics*, Volume 1A, pp. 65–148, Amsterdam: Elsevier
- \*Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans (2005) “Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy,” *Journal of Political Economy*, 113(1):1–45, Sections 1 and 2
- Cochrane, John H. (1994) “Shocks,” *Carnegie-Rochester Conference Series on Public Policy*, 41(1):295–364
- Cochrane, John H. (1998) “What do the VARs mean? Measuring the output effects of monetary policy,” *Journal of Monetary Economics*, 41(2):277–300
- \*Romer, Christina D. and David H. Romer (2004) “A New Measure of Monetary Shocks: Derivation and Implications,” *American Economic Review*, 94(4):1055–1084
- \*Sbordone, Argia M. (2002) “Prices and unit labor costs: a new test of price stickiness,” *Journal of Monetary Economics*, 49(2):265–292
- Uhlig, Harald (2005) “What are the effects of monetary policy on output? Results from an agnostic identification procedure,” *Journal of Monetary Economics*, 52(2):381–419

### 3.5 Imperfect Knowledge

- \*IP: Chapter 3, Section 3, “Delayed Effects of Nominal Disturbances on Inflation.”
- Lucas, Robert E (1972) “Expectations and the neutrality of money,” *Journal of Economic Theory*, 4(2):103–124
- \*Mankiw, N. Gregory and Ricardo Reis (2002) “Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve,” *The Quarterly Journal of Economics*, 117(4):1295–1328
- \*Mankiw, N. Gregory and Ricardo Reis (2010) “Imperfect Information and Aggregate Supply,” in B. M. Friedman and M. Woodford (Eds.), *Handbook of Monetary Economics*, Volume 3, pp. 183–229, Amsterdam: Elsevier
- Reis, Ricardo (2006) “Inattentive Producers,” *The Review of Economic Studies*, 73(3):793–821
- Sims, Christopher A. (2010) “Rational Inattention and Monetary Economics,” in B. M. Friedman and M. Woodford (Eds.), *Handbook of Monetary Economics*, Volume 3 of *Handbook of Monetary Economics*, pp. 155–181, Amsterdam: Elsevier
- \*Woodford, Michael (2002) “Imperfect Common Knowledge and the Effects of Monetary Policy,” in P. Aghion, R. Frydman, J. Stiglitz, and M. Woodford (Eds.), *Knowledge, Information, and Expectations in Modern Macroeconomics: In Honor of Edmund S. Phelps*, pp. 25–58, Princeton: Princeton University Press

### 3.6 Unconventional Monetary Policy

- Auerbach, Alan J. and Maurice Obstfeld (2005) “The Case for Open-Market Purchases in a Liquidity Trap,” *The American Economic Review*, 95(1):110–137
- \*Bernanke, Ben S. and Vincent R. Reinhart (2004) “Conducting Monetary Policy at Very Low Short-Term Interest Rates,” *American Economic Review*, 94(2):85–90
- Bernanke, Ben S., Vincent R. Reinhart, and Brian P. Sack (2004) “Monetary Policy Alternatives at the Zero Bound: An Empirical Assessment,” *Brookings Papers on Economic Activity*, 35(2):1–100
- Campbell, Jeffrey R., Charles L. Evans, Jonas D.M. Fisher, and Alejandro Justiniano (2012) “Macroeconomic Effects of Federal Reserve Forward Guidance,” *Brookings Papers on Economic Activity*, 44(1):1–80
- \*Cúrdia, Vasco and Michael Woodford (2011) “The central-bank balance sheet as an instrument of monetary policy,” *Journal of Monetary Economics*, 58(1):54–79
- Eggertsson, Gauti B. and Michael Woodford (2003) “The Zero Bound on Interest Rates and Optimal Monetary Policy,” *Brookings Papers on Economic Activity*, 2003(1):139–211

- Gertler, Mark and Peter Karadi (2011) “A model of unconventional monetary policy,” *Journal of Monetary Economics*, 58(1):17–34
- Goodfriend, Marvin (2011) “Central banking in the credit turmoil: An assessment of Federal Reserve practice,” *Journal of Monetary Economics*, 58(1):1–12 Carnegie-Rochester Conference Series on Public Policy: The Future of Central Banking April 16-17, 2010
- Krugman, Paul R. (1998) “It’s Baaack: Japan’s Slump and the Return of the Liquidity Trap,” *Brookings Papers on Economic Activity*, 29(2):137–206
- Sargent, Thomas J. (2011) “Where to Draw Lines: Stability Versus Efficiency,” *Economica*, 78(310):197–214
- Wallace, Neil (1981) “A Modigliani-Miller Theorem for Open-Market Operations,” *The American Economic Review*, 71(3):267–274
- Walsh, Carl E. (2009) “Using Monetary Policy to Stabilize Economic Activity,” *Proceedings of the Jackson Hole Economic Policy Symposium*, 33(1):246–296
- \*Woodford, Michael (2012) “Methods of policy accommodation at the interest-rate lower bound,” *Proceedings of the Jackson Hole Economic Policy Symposium*, 36(1):185–288