Instructor: Francesco Bianchi, Social Sciences Building, 201B, email: francesco.bianchi@duke.edu

Teaching Assistant: Michael Boutros, michael.boutros@duke.edu

Time and Location: Wednesday, 03:05PM to 05:35PM.

Office Hours: Wednesday, 6:00 PM - 7:00 PM.

Description of the Course: In this course, we will study the role of monetary and fiscal policies in determining macroeconomic outcomes and the impact of policy makers’ decisions on financial markets. We will try to understand why monetary and fiscal policy decisions are so closely scrutinized by financial markets. We will first review some stylized facts about the macroeconomy, the term structure of interest rates, and the stock market. Then, we will cover the role of monetary and fiscal policies in a simple two-period model to build the intuition about the importance of policy decisions. We will see that the basic insights extend to a prototypical New-Keynesian model. We will use the New-Keynesian model to understand the role of monetary policy and fiscal discipline in determining output, inflation, long term interest rates, and asset prices. Finally, we will consider the role of unconventional monetary policy to better understand the policies implemented by the Federal Reserve during the great Recession such as Quantitative Easing and Forward Guidance.

The course will require some computational work in Matlab (or similar languages) to study the quantitative implications of the models for the behavior of the macroeconomy.

Grading: There will be 5/6 problem sets (worth 30% of the final grade), one midterm (worth 30% of the final grade), and a final (worth 40% of the final grade). The midterm will be on October 11th. Class participation is strongly encouraged and will be taken into account when defining the final grade.

Software: Matlab is recommended, as I will make some codes available in this language. However, R, Julia, Python, Gauss,... are valid alternatives.

Readings:
Monetary Policy, Inflation, and the Business Cycle (Gali (2008))
Foundations of International Macroeconomics (Obstfeld and Rogoff 1996)**

Topics

- Some stylized empirical facts (notes)
- Methods: Constrained optimization, dynamic optimization, linearization and log-linearization (notes)
- Two period model and Ricardian equivalence (notes)
- Two period model and monetary/fiscal policy interaction (notes)
- Classical Monetary Model (Gali, chapter 2)
- Cagan model (notes and Obstfeld and Rogoff*)
- Pencil and paper solution of a general equilibrium model
- Using computers to solve general equilibrium models (notes)
- A standard New-Keynesian Model (notes and Gali, chapter 3)
- The Great Inflation and the Great Moderation: The role of Monetary Policy (Clarida et al. (2000), Lubik and Schorfheide (2004))
• Monetary fiscal policy interaction (notes, Leeper (1991), Kocherlakota and Phelan (1999)*)

• The Great Recession:
  1. Unconventional monetary policy: Quantitative Easing and forward guidance
  2. Fiscal policy

• If time allows: Commitment Vs. Discretion (notes and Persson and Tabellini*)

* These readings are not strictly required for the exam in case you feel that the notes and the other readings are enough.
** Copies of the relevant pages will be provided

References


