

# **Economics 751.01**

## **Macroeconomic Theory II**

**Spring 2002**

### **Part II: Money and Monetary Policy**

**Lectures:** Monday and Wednesday, 10 am – 12 pm  
Fulton Hall, Room 423

#### **Fabio Ghironi**

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**Office Hours:** Wednesday, 1 – 3 pm, and by appointment

**Discussion Sessions:** TBA

#### **Teaching Assistant: Mariano Kulish**

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**Office Hours:** TBA

#### **Description:**

This part of the course will focus on models of money demand, the construction of models to explain the empirical evidence on the effects of monetary policy, and issues in the conduct of the latter.

#### **Materials:**

I will make copies of my lecture notes available. They are mainly based on the articles/book chapters suggested below. The following book is strongly recommended (I denote it with WALSH98 below):

Walsh, Carl E., 1998: *Monetary Theory and Policy*, Cambridge: MIT Press.

#### **Requirements and Grading:**

There will be 3 or 4 problem sets, depending on how the class evolves, and an in-class, closed-books exam on Monday, May 6, at 9:00 am. You will be responsible for *all* the material covered after the February 27 midterm. Problem sets will count for 25 percent of the grade and the exam

will count for 75 percent. Problem sets turned in after the relevant deadline will not be considered. Mariano Kulish will make detailed answers to problem sets available.

### **Lecture Topics and References:**

#### *Part 1: Money Demand (2 lectures):*

Brock, William A. (1974): "Money and Growth: The Case of Long-Run Perfect Foresight," *International Economic Review* 15: 750-777.

Friedman, Milton (1969): "The Optimum Quantity of Money," in Friedman, Milton (ed.), *The Optimum Quantity of Money and Other Essays*, Chicago: Aldine.

Lucas, Robert E., Jr., and Nancy L. Stokey (1987): "Money and Interest in a Cash-in-advance Economy," *Econometrica* 55: 491-514.

Obstfeld, Maurice, and Kenneth Rogoff (1996): "Monetary Exchange Rate Models with Maximizing Individuals," pp. 530-554 in M. Obstfeld and K. Rogoff, *Foundations of International Macroeconomics*, Cambridge: MIT Press.

Sargent, Thomas J. (1987): *Dynamic Macroeconomic Theory*, Cambridge: Harvard University Press (chapters 4-7; see chapters 4 and 5 on MIUF and CIA models).

Sidrauski, Miguel (1967): "Rational Choice and Patterns of Growth in a Monetary Economy," *American Economic Review* 57: 534-544.

Walsh, Carl E. (1998): "Money in a General Equilibrium Framework," Chapter 2 in WALSH98.

Walsh, Carl E. (1998): "Money and Transactions," Chapter 3 in WALSH98.

#### *Part 2: Monetary Policy and the Business Cycle (3 lectures):*

Blanchard, Olivier J., and Nobuhiro Kiyotaki (1983): "Monopolistic Competition and the Effects of Aggregate Demand," *American Economic Review* 77: 647-666.

Calvo, Guillermo A. (1983): "Staggered Prices in a Utility Maximizing Framework," *Journal of Monetary Economics* 12: 383-398.

Caplin, Andrew, and John Leahy (1991): "State-Dependent Pricing and the Dynamics of Money and Output," *Quarterly Journal of Economics* 106: 683-708.

Caplin, Andrew, and John Leahy (1997): "Aggregation and Optimization with State-Dependent Pricing," *Econometrica* 65: 601-625.

Caplin, Andrew, and Daniel Spulber (1987): "Menu Costs and the Neutrality of Money," *Quarterly Journal of Economics* 102: 703-725.

Hairault, Jean-Olivier and Franck Portier (1993): "Money, New-Keynesian Macroeconomics and the Business Cycle," *European Economic Review* 37: 1533-1568.

Lucas, Robert E., Jr. (1972): "Expectations and the Neutrality of Money," *Journal of Economic Theory* 4: 103-124.

Romer, David (2001): "Microeconomic Foundations of Incomplete Nominal Adjustment," Chapter 6 in D. Romer, *Advanced Macroeconomics*, Second Edition, New York: McGraw-Hill

Walsh, Carl E. (1998): "Money and Output in the Short Run," Chapter 5 in WALSH98.

Yun, Tack (1996): "Nominal Price Rigidity, Money Supply Endogeneity, and Business Cycles," *Journal of Monetary Economics* 37: 345-370.

*Part 3: Issues in Monetary Policy (3 lectures):*

Barro, Robert J., and David B. Gordon (1983a): "A Positive Theory of Monetary Policy in a Natural-Rate Model," *Journal of Political Economy* 91(4): 589-610.

Barro, Robert J., and David B. Gordon (1983b): "Rules, Discretion, and Reputation in a Model of Monetary Policy," *Journal of Monetary Economics* 12(1): 101-121.

Calvo, Guillermo A. (1978): "On the Time Consistency of Optimal Monetary Policy in a Monetary Economy," *Econometrica* 46(6): 1411-1428.

Clarida, Richard, Jordi Galí, and Mark Gertler (1999): "The Science of Monetary Policy: A New Keynesian Perspective," *Journal of Economic Literature* 37: 1661-1707.

Kydland, Finn E., and Edward C. Prescott (1977): "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy* 85(3): 473-491.

Persson, Torsten, and Guido Tabellini (1993): "Designing Institutions for Monetary Stability," *Carnegie-Rochester Conference Series on Public Policy* 39.

Rogoff, Kenneth S. (1985): "The Optimal Degree of Commitment to an Intermediate Monetary Target," *Quarterly Journal of Economics* 100: 1169-1189.

Walsh, Carl E. (1995): "Optimal Contracts for Central Bankers," *American Economic Review* 85: 150-167.

Walsh, Carl E. (1998): "Discretionary Policy and Time Inconsistency," Chapter 8 in WALSH98.