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Money and Financial Markets
B9353

**EMPIRICAL METHODS IN
MONETARY ECONOMICS AND FINANCE**

Course Outline and Reading List

Note: * items are required readings and will eventually be in a packet of readings.

I. Introduction: The Gauss-Markov Theorem, Granger Causality and Vector Autoregressions

*C.W.J. Granger, "Investigating Casual Relations by Econometric Models and Cross-Spectral Methods," *Econometrica*, vol 37, no. 3 (1969).

*C.A. Sims, "Money, Income and Causality," *American Economic Review*, vol 62, no. 4 (1972).

*C.A. Sims, "Macroeconomics and Reality", *Econometrica* 48 (1980) pp. 1-48.

R.E. Hall, "Stochastic Implications of the Life-Cycle -- Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, vol 86, no. 6 (1978).

II. Exploiting Rational Expectations Orthogonality: Understanding Real Interest Rate Behavior

*E.F. Fama, "Short-Term Interest Rates as Predictors of Inflation", *American Economic Review* 65 (1975) pp. 269-82.

*F.S. Mishkin, "The Real Interest Rate: An Empirical Investigation", in K. Brunner and A. Meltzer, eds., *Carnegie-Rochester Conference Series on Public Policy*,

Volume 15, pp. 151-200 and pp. 213-18, in packet.

F.S. Mishkin, "Are Real Interest Rates Equal Across Countries? An Empirical Investigation of International Parity Conditions", *Journal of Finance* 39 (July 1984) pp. 1345-1357.

R. Barsky, "The Fisher Hypothesis and the Forecastability and Persistence of Inflation", *Journal of Monetary Economics* 19 (1987): 3-24.

III. Unit Roots and Cointegration

*J. Stock and M. Watson, "Variable Trends in Economic Time Series," *Journal of Economic Perspectives* (Summer 1988): 147-74.

*R.F. Engle and C.W.J. Granger, "Cointegration and Error Correction: Representation, Estimation and Testing", *Econometrica* (March 1987): 251-76.

*J. Campbell and P. Perron, "Pitfalls and Opportunities: What Macroeconomists Should Know About Unit Roots," *NBER Macroeconomics Annual* 1991 6: 141-219 (includes discussion).

*F.S. Mishkin, "Is the Fisher Effect for Real? A Reexamination of the Relationship Between Inflation and Interest Rates," *Journal of Monetary Economics*, (October 1992).

C. Nelson and C. Plosser, "Trends and Random Walks in Macroeconomic Time-Series," *Journal of Monetary Economics* 10 (1982): 139-62.

G.W. Schwert, "Effects of Model Specification on Tests for Unit Roots in Macroeconomic Data," *Journal of Monetary Economics* 20 (1987): 73-103.

IV. The Information in the Term Structure of Interest Rates

*J.Y. Campbell and R.J. Shiller, "Cointegration and Tests of Present Value Models", *Journal of Political Economy* 95

(October 1987): 1062-1088.

*J.Y. Campbell and R.J. Shiller, "Yield Spreads and Interest Rate Movements: A Bird's Eye View," *Review of Economic Studies* 58 (1991): 495-514.

*E. Fama, "The Information in the Term Structure", *Journal of Financial Economics* 13 (1984) pp. 509-28.

*F.S. Mishkin "What Does the Term Structure Tell Us About Future Inflation?" *Journal of Monetary Economics* 25 (January 1990): 77-95.

*A. Estrella and F.S. Mishkin, "Predicting U.S. Recessions: Financial Variables As Leading Indicators," Federal Reserve Bank of New York, Research Paper No. 9609 (May 1996), *Review of Economics and Statistics*, forthcoming.

T.J. Sargent, "A Note of Maximum Likelihood Estimation of the Rational Expectations Model of the Term Structure," *Journal of Monetary Economics*, vol 5 (1979).

A. Estrella and F.S. Mishkin, "The Predictive Power of the Term Structure of Interest Rates: Implications for the European Central Bank," *European Economic Review*, Vol. 41 (1997): 1375-1401.

Fama, E. and Bliss, R.R., "The Information in Long-Maturity Forward Rates," *American Economic Review* 77 (September 1987): 680-692.

F.S. Mishkin, "The Information in the Longer-Maturity Term Structure About Future Inflation," *Quarterly Journal of Economics*, 55, (August 1990):815-28.

P. Jorion and F.S. Mishkin, "A Multi-Country Comparison of Term Structure Forecasts at Long Horizons," *Journal of Financial Economics*, 29, (January 1991): 59-80.

N.G. Mankiw and L.H. Summers, "Do Long-Term Interest Rates Overreact to Short-Term Interest Rates?" *Brookings Papers on Economics Activity* (1984:1) pp. 223-42.

R.J. Shiller, J.Y. Campbell and K.L. Shoenholtz, "Forward Rates and Future Policy: Interpreting the Term Structure of Interest Rates," *Brookings Papers on Economic Activity* (1983:1) pp. 173-217.

V. Structural Vector Autoregressive (VAR) Models: The Effects of Monetary Policy Shocks

*Mark W. Watson, "Vector Autoregressions and Cointegration," in R.F. Engle and D.L. McFadden, *Handbook of Econometrics* (Elsevier Science B.V.: Amsterdam, 1994), pp. 2844-2915.

*Bernanke, B. and I. Mihov, "Measuring Monetary Policy," mimeo. Princeton University (July 1997) forthcoming in *Quarterly Journal of Economics*.

*Christiano, L.J., Eichenbaum M. and C.L. Evans, "Monetary Policy Shocks: What Have We Learned and to What End?" forthcoming in the *Handbook of Macroeconomics*.

R.J. Barro, "Unanticipated Money Growth and Unemployment in the United States", *American Economic Review*, (1977) vol 67, no. 2: 101-115

F.S. Mishkin, *A Rational Expectations Approach to Macroeconometrics: Testing Policy Ineffectiveness and Efficient Markets Models*. (Chicago: University of Chicago Press for The National Bureau of Economic Research, 1983).

B. Bernanke, "Alternative Explanations of the Money-Income Correlation", Carnegie-Rochester Conference Series, Vol. 25 (Autumn, 1986): 49-99.

Christiano, L.J., Eichenbaum M. and C.L. Evans, "Identification and the Effects of Monetary Policy Shocks," in M.I. Blejer, Z. Eckstein, Z. Hercowitz and L. Leiderman, eds., *Financial Factors in Economic Stabilization and Growth* (Cambridge University Press: Cambridge, U.K. 1996), pp. 36-74.

Strongin, S., "The Identification of Monetary Policy Disturbances: Explaining the Liquidity Puzzle," *Journal of Monetary Economics*, vol 35, no. 3 (August 1995), pp. 463-97.

Rudebusch, G. "Do Measures of Monetary Policy in a VAR Make Sense? mimeo Federal Reserve Bank of San Francisco (June 1997).

Evans, C.L. and K.N. Kutner, "Can VARs Describe Monetary Policy?" mimeo. Federal Reserve Bank of Chicago (March 1998).

King, R. and M. Watson, "The Postwar Phillips Curve: A Revisionist History," *Carnegie-Rochester Conference Series on Public Policy*, vol 41 (December 1994), pp. 157-219.

Gali, J., "How Well Does the ISLM Model Fit Postwar U.S. Data?" *Quarterly Journal of Economics*, vol 107, no. 2 (May 1992), pp. 709-38.

Leeper, E. Sims, C.A. and T. Zha, "What Does Monetary Policy Do?" *Brookings Papers on Economic Activity* (1996:2), pp. 1-78.

Bernanke, B., Gertler M., and M. Watson, "Systematic Monetary Policy and the Effects of Oil Price Shocks," *Brookings Papers on Economic Activity*, (1997:1), pp. 91-158 (including discussion).

VI. Historical-Econometric Methods

*C. Romer and D. Romer, "Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz," *NBER Macroeconomics Annual* (1989), pp. 121-183.

*J. Huizinga and F.S. Mishkin, "Monetary Policy Regime Shifts and the Unusual Behavior of Real Interest Rates", *Carnegie-Rochester Conference Series on Public Policy* 24 (Spring 1986) pp. 231-74, in packet.

Hoover, K.D. and S.J. Perez, "Post Hoc Ergo Propter Hoc Once More: An Evaluation of 'Does Monetary Policy'" *Journal of Monetary Economics*, vol 34, no. 1 (August 1994), pp. 47-73.

M. Friedman and A.J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963).

VII. Historical Approach: Financial Crises

*Bernanke, B.S. (1983). "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great

Depression," *American Economic Review* 73: 257-76.

*F.S. Mishkin, "Asymmetric Information and Financial Crises: A Historical Perspective," in R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (University of Chicago Press: Chicago, 1991): 69-108.

*F.S. Mishkin, "Understanding Financial Crises: A Developing Country Perspective," in Michael Bruno and Boris Pleskovic, eds., *Annual World Bank Conference on Development Economics 1996* (World Bank: Washington D.C. 1996).

C.W. Calomiris, "Financial Factors in the Great Depression," *Journal of Economic Perspectives*, vol. 7, no. 2, pp. 61-85.

VIII. Case Study Approach: Monetary Policy Strategy

*F.S. Mishkin and A. Posen, "Inflation Targeting: Lessons from Four Countries," *Economic Policy Review*, vol. 3, #3 (August 1997): 9-110.

*F.S. Mishkin, "International Experiences with Different Monetary Policy Regimes," *Journal of Monetary Economics*, Vol. 43, #3 (June 1999): 579-606.

B. Bernanke and F.S. Mishkin, "Central Bank Behavior and the Strategy of Monetary Policy: Observations from Six Industrialized Countries," *NBER Macroeconomics Annual*, 1992, pp. 183-228.

Ben S. Bernanke, Thomas Laubach, Frederic S. Mishkin and Adam S. Posen, *Inflation Targeting: Lessons from the International Experience* (Princeton University Press: Princeton, 1999)