

Ph.D. Course in Monetary Theory, Bocconi University, Fall 2001
Prof. Stefania Albanesi

Objective:

The purpose of this course is to review a number of topics in monetary economics and optimal monetary policy. The first part of the course will focus on the monetary transmission mechanism in quantitative general equilibrium monetary models with nominal rigidities, financial and labor market frictions, heterogeneous agents. The second part of the course will analyze optimal monetary policy with and without commitment in a subset of these models.

Evaluation:

- 50%- Assignments.
- 50%- Option:
 - Take-home exam to be taken between 14/1 and 18/1 2002.
 - Short-paper to be completed by 30/4/2002.

Additional Course Material

A number of handouts are *required* reading for this course:

Three Equilibrium Concepts

Conditions for Household Optimization in a Standard Monetary Model

Solving a DGE with Limited Information

Topics and Related Readings:

- Motivation

-Monetary Facts

Christiano, Lawrence J., Martin Eichenbaum, Charles Evans, 1999, "Monetary Shocks: What Have We learned and to What End?", Handbook of Macroeconomics.

-Facts about the distribution of financial assets and money

Mulligan, Casey, and Xavier Sala-i-Martin, 2000, "Extensive Margins and the Demand for Money at Low Interest Rates", JPE.

Part A: The Monetary Transmission Mechanism

- Endogenous Money Demand (*2 lectures*)

Aiyagari, Rao, Anton Braun, Zvi Eckstein, 1998, "Transaction Services, Inflation and Welfare", Journal of Political Economy 106.6.

Dotsey, Michael and Peter Ireland, 1996, "The welfare cost of inflation in general equilibrium", Journal of Monetary Economics 37: 29-47.

Erosa, Andres, and Gustavo Ventura, 2000, "On Inflation as a Regressive Consumption Tax", manuscript, University of Western Ontario.

Freeman, Scott and Finn Kydland, 2000, "Monetary Aggregates and Output", American Economic Review: 1125-1135.

- Limited Financial Market Participation (*2 lectures*)

Alvarez, Fernando, Andrew Atkeson, Pat Kehoe, 2000, "Money, Interest Rates, and Exchange Rates with Endogenously Segmented Asset Markets", forthcoming JPE.

Grossman, Sanford, and Laurence Weiss, 1983, "A Transactions-Based Model of the Monetary Transmission Mechanism", AER 73: 871-80.

Occhino, Filippo, 2001, "Monetary Policy Shocks in an Economy with Segmented Markets", manuscript, Rutgers University.

Additional Reading:

Alvarez, Fernando, Robert E. Lucas, Warren Weber, 2001, "Interest Rates and Inflation", AER Papers and Proceedings.

Alvarez, Fernando, Andrew Atkeson, Pat Kehoe, 1999, "Money and Interest Rates with Endogenously Segmented Markets", Federal Reserve Bank of Minneapolis, Research Department Staff Report 260.

Christiano, Lawrence J., Martin Eichenbaum, 1995, "Liquidity Effects, Monetary Policy and the Business Cycle", Journal of Money, Credit and Banking 27.4: 1113-1136.

Lucas, Robert E., 1990, "Liquidity and Interest Rates", Journal of Economic Theory 50: 237-64.

- State Dependent Pricing (*1 lecture*)

Dotsey, King and Wolman, 1999, "State Dependent Pricing and the General Equilibrium Dynamics of Money and Output", Quarterly Journal of Economics 114: 655-690.

Ireland, Peter N., 1997, "Stopping Inflation, Big and Small", Journal of Money, Credit and Banking, 29.4.

Background reading:

Chari, VV, Patrick Kehoe, Ellen McGrattan, 2000, "Sticky Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problem?", Econometrica.

Christiano, Lawrence J., Martin Eichenbaum, Charles Evans, 1997, "Sticky price and limited participation models of money: A comparison", European Economics Review.

Christiano, Lawrence J., Martin Eichenbaum, Charles Evans, 2001, "Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy", NBER WP .

Yun, Tak, 1996, "Nominal Price Rigidity, Money Supply Endogeneity, and Business Cycles", Journal of Monetary Economics 37.

- Money and Labor Contracts (*1 lecture*)

Alexopolous, Michelle, 2001, "Shirking in a Monetary Business Cycle Model", manuscript, University of Toronto.

Jovanovich, Boyan, and Masako Ueda, 1997, "Contracts and Money", JPE 105.4: 700-708.

Jovanovich, Boyan, and Masako Ueda, 1997, "Contracts and Money", NBER WP.

Additional reading:

Benassy, Jean-Pascal, 1995, "Money and wage contracts in an optimizing model of the business cycle", Journal of Monetary Economics 35: 303-315.

Cho, Jang-Ok, and Thomas F. Cooley, 1995, "The business cycle with nominal contracts", Economic Theory 6: 13-33.

Part B: Optimal Monetary Policy

- **With Commitment** (*2 lectures*)

Chari, V.V., and Pat Kehoe, 1999, "Optimal Fiscal and Monetary Policy", Handbook of Macroeconomics.

Siu, Henry, 2001, "Optimal Fiscal and Monetary Policy with Sticky Prices", manuscript, Northwestern University.

Schmidt-Grohe, Stephanie, and Martin Uribe, 2001, "", manuscript, Rutgers University and University of Pennsylvania.

Chari, V.V., Lawrence J. Christiano, Patrick Kehoe, 1996, "The Optimality of the Friedman Rule with Distorting Taxes", Journal of Monetary Economics.

Lucas, Robert E., Nancy Stokey, 1983, "Optimal Fiscal and Monetary Policy in an Economy without Capital", Journal of Monetary Economics.

Additional Reading:

Bassetto, Marco, 2001, "Equilibrium and Government Commitment", manuscript, University of Minnesota.

Correia, Isabel, Juan Pablo Nicolini, Pedro Teles, 2001, "Optimal Monetary and Fiscal Policy: Equivalence Results", manuscript, Bank of Portugal and Universitat Torquato Di Tella.

Da Costa, Carlos, and Ivan Werning, 2001, "On the Optimality of the Friedman Rule with Heterogeneous Agents and Non-Linear Income Taxation", manuscript, University of Chicago.

Kahn, King and Wolman, 2000, "Optimal Monetary Policy", Federal Reserve Bank of Richmond WP 00-10.

Ireland, Peter, 1996, "The Role of Countercyclical Monetary Policy", Journal of Political Economy 104: 704-723.

- **With No Commitment**

-Time-Inconsistency? (1 lecture)

Albanesi, Stefania, V.V. Chari, Lawrence J. Christiano, 2000, "How Severe is the Time Consistency Problem in Monetary Economics?", NBER WP.

Albanesi, Stefania, 2001, "The Time Consistency of Optimal Monetary and Fiscal Policy with Heterogeneous Agents", manuscript, Northwestern University.

Nicolini, Juan-Pablo, 1999, "More on the Time-Inconsistency of Monetary Policy", Journal of Monetary Economics.

Background reading:

Chari, V.V., 1988, "Time Consistency and Optimal Policy Design", Federal Reserve Bank of Minneapolis, Quarterly Review, Fall Issue.

-Markov equilibria (1 lecture)

Albanesi, Stefania, V.V. Chari, and Lawrence J. Christiano, 2000, "Expectations Traps and Monetary Policy", IGIER WP 198.

Cooley, Thomas, and Vincenzo Quadrini, 2000, "Optimal Monetary Policy in a Phillips Curve World", manuscript, New York University.

Dedola, Luca, 2000, "Rules vs discretion in a dynamic general equilibrium model of monetary policy", manuscript, University of Rochester.

Kahn, King and Wolman, 2001, "The Pitfalls of Monetary Discretion", manuscript, Federal Reserve Bank of Richmond and Boston University.

Background reading:

Krusell, Per, Vincenzo Quadrini, and Victor Rios-Rull, 1997, "Politico-Economic Equilibrium and Economic Growth", JEDC.

-Sustainable Equilibria (1 lecture)

Chari, V.V., Lawrence J. Christiano, Martin Eichenbaum, 1998, "Expectation Traps and Discretion", Journal of Economic Theory 81.2: 462-492.

Ireland, Peter, 1997, "Sustainable Monetary Policies", Journal of Economic Dynamics and Control 22: 87-108.

Background reading:

Stokey, Nancy, 1989, "Reputation and Time-Consistency", AER 79.2.

-Sustainable Equilibria With Asymmetric Information (1 lecture)

Sleet, Christopher, and Sevin Yeltekin, 2001, "Monetary Policy with Private Government Preferences: U Turn If You Want to", manuscript, Northwestern University and University of Iowa.

Sleet, Christopher, 2000, "On Credible Monetary Policy and Private Information", forthcoming, Journal of Economic Theory.