

Macroeconomics II (ECO 2008), Part 1 – 2011

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This is the first part of the second course of Macroeconomics for the Masters and for the PhD. We will study monetary economics. Our focus will be on the demand for money, the welfare cost of inflation, and on the effects of monetary policy shocks.

Evaluation

We will have problem sets and a final. Half of the final exam will be devoted to Part 2 of Macroeconomics.

In addition to the papers in the reading list, some useful books are listed below. The book that we will use most frequently is Walsh.

Galí, Jordi (2008). *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*. Princeton University Press.

Ljungqvist, Lars and Thomas J. Sargent (2004). *Recursive Macroeconomic Theory*, 2nd Ed. MIT Press.

Stokey, Nancy, Robert Lucas, and Edward Prescott (1989). *Recursive Methods in Economic Dynamics*. Harvard University Press.

Walsh, Carl E. (2010). *Monetary Theory and Policy*, 3rd Ed. MIT Press.

Woodford, Michael (2003). *Interest and Prices*, Princeton University Press.

Reading List

A * indicates the papers that are especially relevant for the classes.

1. Evidence on Money and on the Effects of Monetary Shocks

Christiano, Lawrence J., Martin Eichenbaum, and Charles Evans (1999). “Monetary Policy Shocks: What Have We Learned and to What End?” *Handbook of Macroeconomics*, Michael Woodford and John Taylor (eds.). Amsterdam: North Holland.

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

Lucas, Robert E. (1996). “Nobel Lecture: Monetary Neutrality.” *Journal of Political Economy*, 104(4): 661-682.

* Lucas, Robert E. (2000). “Inflation and Welfare.” *Econometrica*, 68(2): 247-274.

* Teles, Pedro, and Ruilin Zhou (2005). “A Stable Money Demand: Looking for the Right Monetary Aggregate.” *Economic Perspectives*, Federal Reserve Bank of Chicago, 29: 50-63.

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.

Walsh Ch. 1.

2. The Welfare Cost of Inflation

Cooley, Thomas F. and Gary D. Hansen (1989). "The Inflation Tax in a Real Business Cycle Model." *American Economic Review*, 79(4): 733-748.

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

Lagos, Ricardo, and Randall Wright (2005). "A Unified Framework for Monetary Theory and Policy Analysis." *Journal of Political Economy*, 113(3): 463-484.

* Lucas, Robert E. (2000). "Inflation and Welfare." *Econometrica*, 68(2): 247-274.

Silva, Andre C. (2011). "Individual and Aggregate Money Demands." Working Paper.

Silva, Andre C. (Forthcoming). "Rebalancing Frequency and the Welfare Cost of Inflation." *American Economic Journal: Macroeconomics*.

Walsh Ch. 2, Ch. 3.

3. Money and Fiscal Policy

Leeper, Eric M. (1991). "Equilibria under 'Active' and 'Passive' Monetary and Fiscal Policies." *Journal of Monetary Economics*, 27(1): 129-147.

LS Ch 24.

* Walsh Ch. 4.

4. Market Segmentation and Sticky Information

* Alvarez, Fernando, Andrew Atkeson and Patrick Kehoe (2002). "Money, Interest Rates, and Exchange Rates with Endogenously Segmented Markets." *Journal of Political Economy*, 110(1): 73-112.

* Alvarez, Fernando, Andrew Atkeson, and Chris Edmond (2009). "Sluggish Responses of Prices and Inflation to Monetary Shocks in an Inventory Model of Money Demand." *Quarterly Journal of Economics*, 124(3): 911-967.

* Lucas, Robert E. (1990). "Liquidity and Interest Rates." *Journal of Economic Theory*, 50: 871-880.

Lucas, Robert E., Fernando Alvarez, and Warren Weber (2001). "Interest Rates and Inflation." *American Economic Review*, 91(2): 219-225.

Mankiw, Gregory N., and Ricardo Reis (2002). "Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve." *Quarterly Journal of Economics*, 117(4): 1295-1328.

Grossman, Sanford and Laurence Weiss (1983). "A Transactions-Based Model of the Monetary Transmission Mechanism." *American Economic Review*, 73: 871-880.

* Walsh Ch. 5.

5. Nominal Price and Wage Rigidities

Golosov, Mikhail, and Robert E. Lucas (2007). "Menu Costs and Phillips Curves." *Journal of Political Economy*, 115(2): 171-199.

Midrigan, Virgiliu (Forthcoming). "Menu-Costs, Multi-Product Firms and Aggregate Fluctuations." *Econometrica*.

* Walsh Ch. 6.

Woodford Ch. 3.

6. New Keynesian Models

Christiano, Lawrence J., Martin Eichenbaum, and Charles Evans (2005). “Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy.” *Journal of Political Economy*, 113(1): 1-45.

* Walsh Ch. 8.

Woodford Ch. 3.

7. The Monetary Transmission in the New Keynesian Model

* Walsh Ch. 8.

Woodford Ch. 6.

8. Optimal Monetary Policy in the New Keynesian Model

Schmitt-Grohe, Stephanie and Martin Uribe (2005). “Optimal Fiscal and Monetary Policy in a Medium-Scale Macroeconomic Model.” In Mark Gertler and Kenneth Rogoff, eds., *NBER Macroeconomics Annual 2005*, MIT Press: Cambridge MA, 2006, 383-425.

* Walsh Ch. 8.

Woodford Ch. 7, 8.

9. Money and the Open Economy

Galí Ch 7.4.

* Walsh Ch. 9.