Econ 243
Monetary and Fiscal Policies
FALL 2013

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Time and Location: Tuesday and Thursday, 1:30 PM-3:00 PM, McNeil building 395.

Office Hours: Thursday, 9:00-10:00 AM, McNeil building 553.

Description of the Course: We will cover New-Keynesian models and their use in the study of the conduct of monetary policy. We will first focus on the theoretical aspects of these models. Some computational work will be required when studying their implications for the behavior of the macroeconomy. We will then introduce fiscal policy. Finally, we will review alternative theories that try to explain the rise and fall of inflation in the '70s and the stability characterizing the '80s and '90s.

Grading: There will be 5/6 problem sets (worth 30% of the final grade), 2 midterms (*each* worth 15% of the final grade), and a final (worth 40% of the final grade). The dates for the midterms are October 1st and November 5th. Class participation is strongly encouraged and will be taken into account when defining the final grade. Some of the problem sets will require a substantial amount of work, so you should start work on them early.

Software: Matlab or R. R is public domain. There are issues and trade-offs, which we will discuss, and which you should consider before deciding what to do.

Readings:
Monetary Policy, Inflation, and the Business Cycle (Gali (2008))
Foundations of International Macroeconomics (Obstfeld and Rogoff 1996)**
Political Economics: Explaining Economic Policy (Persson and Tabellini 2002)**

Course policies: The departmental course policies apply. The policies are available at:
http://economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/policies

Topics

- Some stylized empirical facts (notes)

- Methods: Constrained optimization, dynamic optimization, linearization and log-linearization (notes)

- Classical Monetary Model (Gali, chapter 2)

- 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)*)

- Cagan Model (notes and Obstfeld and Rogoff*)

- 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

R. Clarida, J. Gali, and M. Gertler. Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory. *Quarterly Journal of Economics*, 115:147–180, 2000.

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

Narayana Kocherlakota and Christopher Phelan. Explaining the Fiscal Theory of the Price Level. *Federal Reserve Bank of Minneapolis Quarterly Review*, 23(4):14–23, 1999.

E. M. Leeper. Equilibria Under Active and Passive Monetary and Fiscal Policies. *Journal of Monetary Economics*, 27:129–147, 1991.

T. Lubik and F. Schorfheide. Testing for Indeterminacy: An Application to U.S. Monetary Policy. *American Economic Review*, 94(1):190–217, 2004.