

Faculty of Economics

S201 Applied Macroeconomics

Aims and Objectives

This course analyses the effect of monetary and fiscal policy on economic activity from both a theoretical and empirical perspective. We will introduce a simple monetary economic model from which we can discuss the efficacy of policies, and how these change when the economy is in a liquidity trap. Furthermore, we will discuss identification issues in structural vector autoregressions (SVARs), and empirically assess policy implications.

Topics

- Identification in SVARs
- Empirical regularities
- Introducing money in economic models (CIA, MiU, and the cashless limit).
- Six monetary doctrines
 - 1) The equation of exchange (or quantity equation)
 - 2) Deficits (may) cause inflation
 - 3) Fiscal prerequisites of zero inflation policy
 - 4) Unpleasant monetarists arithmetic
 - 5) Neutrality of money
 - 6) The Friedman rule
- Fiscal and monetary policy in normal times.
- Depression economics:
 - Liquidity traps
 - Internal devaluations
 - Quantitative easing
 - The importance of commitment: Price-level and NGDP targeting
 - Fiscal policy

Assessment

The examination is comprised by two parts: One written project (30%) and one exam (70%).

Readings

Useful books

- 1) *Recursive Macroeconomic Theory, 2nd edition*, by Lars Ljungqvist and Thomas Sargent (LS)
- 2) *Monetary Theory and Policy*, by Carl E. Walsh (CW)
- 3) *Monetary Policy, Inflation, and the Business Cycle*, by Jordi Gali (JG)
- 4) *Interest & Prices*, by Michael Woodford (MW)
- 5) *Advanced Macroeconomics, fourth edition* by David Romer. (Chapter “The Zero Lower Bound on the Nominal Interest Rate” (pp. 550-554))
- 6) *Structural Vector Autoregressive Analysis* by Lutz Kilian and Helmut Lutkepohl. (Link: <http://www-personal.umich.edu/~lkilian/book.html>)¹

None of the above books are necessary, but may be useful (in particular the book by Walsh). Your lecture notes will take you a long way.

Articles

- 1) “Evil is the root of all money”, Nobuhiro Kiyotaki and John Moore:<http://www.princeton.edu/~kiyotaki/papers/Evilistherootofallmoney.pdf>
- 2) Krugman, Paul R. “It’s baaack: Japan’s Slump and the Return of the Liquidity Trap”. *Brookings Papers on Economic Activity*, vol. 2, 1998. (This is an excellent article, please read).
- 3) Rendahl, Pontus. “Fiscal Policy in an Unemployment Crisis”, *Review of Economic Studies*, vol. 83 (3), 2016, pp. 1189-1224.(Also an excellent article ;))
- 4) Ramey, Valerie. “Macroeconomic Shocks and Their Propagation”. NBER Working Paper 21978, 2016. http://econweb.ucsd.edu/~vramey/research/Shocks_HOM_Ramey.pdf
- 5) Eggertsson, Gauti, and Michael Woodford. “The Zero Bound on Interest Rates and Optimal Monetary Policy.” *Brookings Papers on Economic Activity*, vol. 1, 2003.

¹If you copy and paste the address, remember to adjust the ~ symbol.