

Monetary Theory and Policy (3) (Spring 2019)

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This course, albeit its title, offers an introduction to classical monetary macroeconomics. Instead of treating money as an 'isolated' object, we shall put money in a broader context where money is an indispensable part of economic environment. We will cover traditional topics as well as some recent development, including money-in-the-utility-function (MIUF) models, cash-in-advance (CIA) models, Lucas island model and dynamic sticky price models (new Keynesian models). The overriding theme of this course is about monetary neutrality, both in the long run and in the short run. Since the literature is vast, my lecture will be basic and selective. This introductory course will pave the way for more advanced studies.

Main Text:

Walsh, Carl E., *Monetary Theory and Policy*, 4th Ed., MIT Press, 2017

Suggested Readings:

Long-Run Neutrality

Walsh: Chapter 2.1-2.4, 3.1-3.3, 4.1-4.3.

Brock, W. A., "A Simple Perfect Foresight Monetary Model," *Journal of Monetary Economics*, 1, April 1975, 1-19.

Fischer, S., "Capital Accumulation on the Transitional Path in a Monetary Optimizing Model," *Econometrica*, 47, November 1979, 1433-39.

Lucas, R. E. Jr., "Equilibrium in a Pure Currency Economy," *Economic Inquiry* 18, 1980, 203-220.

———, "On the Mechanics of Economic Development," *Journal of Monetary Economics*, 23, 1988, 3-42.

———, "Nobel Lecture: Monetary Neutrality," *Journal of Political Economy* 104, August 1996, 661-82.

———, and N. Stokey, "Money and Interest in a Cash-in-Advance Economy," *Econometrica* 55, 1987, 491-513.

McCallum, B. T., "Inflation: Theory and Evidence," in B. Friedman and F.

Hahn ed. *Handbook of Monetary Economics*, Vol. 2, Chapter 18, 1990, 963-1012.

———, "Are Bond-financed Deficits Inflationary? A Ricardian Analysis," *Journal of Political Economy*, 92, 1984, 123-135.

Sargent, T. and N. Wallace, "Some Unpleasant Monetarist Arithmetic," *Federal Reserve Bank of Minneapolis Quarterly Review*, 5, 1981, 1-17.

Sidrauski, M., "Rational Choice and Patterns of Growth in a Monetary Economy," *American Economic Review Papers and Proceedings* 57, 1967, 534-44.

Stockman, A. C., "Anticipated Inflation and the Capital Stock in a Cash-in-Advance Economy," *Journal of Monetary Economics* 8, 1981, 387-93.

Money and Fluctuations

Walsh: Chapter 2.5, 2.7, 3.6, 5.2.

Christiano, L. J., "Modeling the Liquidity Effect of A Money Shock," *Federal Reserve Bank of Minneapolis Quarterly Review* 15, Winter 1991, 1-34.

———, "Liquidity Effects and the Monetary Transmission Mechanism," *American Economic Review Papers and Proceedings*, 1992.

Cooley, T. F. and G. D. Hansen, "The Inflation Tax in a Real Business Cycle Model," *American Economic Review* 79, 1989, 733-48.

Lucas, R. E. Jr., "Expectations and the Neutrality of Money", *Journal of Economic Theory* 4, 1972, 103-24.

———, "Econometric Testing of the Natural Rate Hypothesis," in Otto Eckstein ed. *The Econometrics of Price Determination*, Washington D.C.: Board of Governors of the Federal Reserve System, 1972, 50-59.

———, "Some International Evidence on Output-Inflation Tradeoffs," *American Economic Review* 63, 1973, 326-334.

———, "Understanding Business Cycles," *Carnegie-Rochester Conference on Public Policy* 5, 1976, 7-29.

King, R. G., and C. I. Plosser, "Money, Credit and Prices in a Real Business Cycle," *American Economic Review*, 74, June 1984, 363-80.

Dynamic Sticky Price (DSP) Models

Walsh: Chapter 5.4-5.6.

Calvo, G. A., "Staggered Prices in a Utility-Maximizing Framework," *Journal of Monetary Economics*, 12, 1983.

Chari, V. V., P. J. Kehoe, and E. R. McGrattan, "Sticky Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problems?" *Econometrica*, 68(5), 2000.

Christiano, L. J., Eichenbaum, M. and Evans, C. L., "Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy," *Journal of Political Economy*, 113(1), 2005.

Dotsey, M. and King, R. G., "Implications of State-Dependent Pricing for Dynamic Macroeconomic Models," *Journal of Monetary Economics*, 42, 2005.

King, R. G., "Will the new Keynesian macroeconomics Resurrect the IS-LM Model?" *The Journal of Economic Perspective*, 7(1), Winter 1993.

Policy: Rules vs. Discretion

Walsh: Chapter 8.1-8.2, 10.1-10.2, 11.1-11.3.

Barro, R. J. and D. Gordon, "A Positive Theory of Monetary Policy in a Natural-Rate Model," *Journal of Political Economy*, 91, 1983, 589-610.

Kydland, F. and E. Prescott, "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy*, 85, 1977, 473-91.

Lucas, R. E. Jr., "Econometric Policy Evaluation: A Critique," in K. Brunner and A.H.Meltzer ed. *The Phillips Curve and Labor Markets*, 1976.

McCallum, B. T., "Robustness Properties of a Rule for Monetary Policy," *Carnegie-Rochester Conference Series on Public Policy*, 29, 1988, 193-203.