Goethe-Universität | 60629 Frankfurt am Main
Fachbereich 02 | House of Finance

Monetary Theory and Policy
Summer Semester 2022
Prof. Dr. Alexander Meyer-Gohde
Chair of Financial Markets and Macroeconomics

Lecture:	Hörsaalzentrum Westend - HZ 14 Tuesdays 4:15-5:45
Recitation:	Seminarhaus SH - SH 2.101 Thursdays 10:15-11:45 (every second week beginning April 21st)
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31. März 2022

Faculty of Economics and Institute for Monetary and Financial Stability

Chair of Financial Markets and Macroeconomics

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Hybrid Course: Due to the ongoing COVID-19 pandemic, this course will be offered in a hybrid format. Alongside the complete in-person offering, all material including videos of lectures and recitations will be available online. The exact modalities will be communicated via OLAT. Please contact us if you have any concerns and, most importantly, stay safe!

Course Grade: The grade will be based on a final exam. The exam questions will be in English. You may answer in English or in German.

Course Description: This course introduces students to the dynamic stochastic general equilibrium (DSGE) models used in modern monetary macroeconomics called New Keynesian models. The basic model equations including nominal frictions such as price stickiness are derived carefully, and model solution techniques are discussed. Numerical solutions of the models are obtained and the models are simulated and analyzed using

Dynare in MATLAB. Possible extensions to the core model that may be treated in class include an analysis of optimal monetary policy.

After completing the course, students should understand the dynamic mechanisms of nominal rigidities and the policy tradeoffs facing monetary policy. Mechanically, students will be able to derive, solve and simulate simple DSGE models and should be able to read and understand more elaborate models found in the literature.

Literature:

Barro, Robert and David Gordon (1983): "Rules, discretion and reputation in a model of monetary policy," Journal of Monetary Economics, 12(1), pp. 101-121.

Clarida, Richard, Jordi Galí, and Mark Gertler (1999): "The Science of Monetary Policy: A New Keynesian Perspective," Journal of Economic Literature, American Economic Association, vol. 37(4), pp. 1661-1707.

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

King, Robert and Watson, Mark, (1995), Money, prices, interest rates and the business cycle, No 95-10, Working Paper Series, Macroeconomic Issues, Federal Reserve Bank of Chicago.

Lucas, Robert E. (1976): "Econometric Policy Evaluation: A Critique," Carnegie-Rochester conference Series on Public Policy, vol. 1, 19-46.

McCandless, George (2008): The ABCs of RBCs: An Introduction to Dynamic Macroeconomic Models. Harvard University Press.

Sims, Christopher (1980):"Macroeconomics and Reality," Econometrica, 48(1), 1-48.

Woodford, Michael (2001): "The Taylor Rule and Optimal Monetary Policy," American Economic Review 91(2), pp. 232-237.

Course Outline

1. Introduction

Concepts/techniques:	Real Business Cycles versus New Keynesianism
Main readings:	Galí (2008), ch. 1
Additional reading:	Lucas (1976), Sims (1981)

2. A Classical Monetary Economy

Concepts/techniques:	Intertemporal optimization, monetary neutrality, log linearization
Main reading:	Galí (2008), ch. 2
Additional reading:	King and Watson (1995)

3. The Basic New Keynesian Model

Concepts/techniques:	Staggered price setting, equilibrium determination
Main reading:	Galí (2008), ch. 3
Additional reading:	Clarida et al. (1999)

4. Optimal Policy Design

Concepts/techniques:	Policy efficiency, optimal versus simple policy rules
Main reading:	Galí (2008), ch. 4
Additional reading:	Woodford (2001)

5. Discretion versus Commitment

Concepts/techniques:	Time consistency
Main reading:	Galí (2008), ch. 5
Additional reading:	Barro and Gordon (1983)

LGMMF-1 Students will understand the empirical foundations of price rigidities and how they connect individual business decisions regarding price policies and aggregate monetary policy.
LGMMF-2 Students will understand fundamental considerations in the design of monetary policy, such as the consequences of optimal policy under discretion versus with commitment.
LGMMF-3 Students will learn the theoretical and methodological foundations of state of the art structural models of monetary policy, understand their empirical foundations, and implement them in numerical software packages.
LGMMF-4 Students will be able to apply state of the art structural models of monetary policy to practical policy questions by implementing them in state of the art numerical software packages.