

Syllabus
Monetary and Fiscal Policy Interactions
European University Institute
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Description:

A remarkable feature of the time we live in is the large and rapidly increasing stock of public debt in most countries. The debate over widening fiscal imbalances and what monetary and fiscal authorities should do about them is likely to be soon at the center of the political agenda. In this short five-lecture course, we will show under what conditions the public debt brings about inflation in general equilibrium models. Through the lens of these models, we will investigate the challenges faced by the monetary authorities when the public debt is large and growing. We will study various ways for the monetary and fiscal authorities to coordinate in order to stabilize the dynamics of the public debt and how this coordination is expected to affect inflation and output growth.

Equipped with these theoretical notions, we put the theory at work and show that the large public expenditure programs launched in the 1960s can explain the heightened inflation of the following decade. We will also use what the theory teaches us regarding how monetary and fiscal authorities in the U.S. and in the Euro Area can cope with the post-pandemic large and growing stock of public debts.

Goal: The course is aimed to bring students to the frontier of research on monetary and fiscal interactions.

Exams: There will be a take-home exam and a few *informal* assignments, which will be handed in during class and do NOT have to be returned. These assignments are intended to stimulate interested students to grasp a deeper comprehension of those concepts that the course cannot thoroughly cover due to the time constrain. *The final grade will be only based on the quality of the take-home exam.*

The take-home exam consists in reading the paper by Leeper (1991) and in reproducing its main results. Ability of concisely explaining results and insights behind results will be rewarded in the final grade. *The exam's length should not exceed 10 pages.*

The submission deadline for the exam is *TBA*. Delayed submissions will be heavily penalized.

Course Outline

1. Fiscal Imbalances and Monetary Policy in the XXI Century
2. Monetary and Fiscal Interactions in General Equilibrium Models
 - (a) Implications of Monetary and Fiscal Coordination:
 - i Fiscal Austerity
 - ii Fiscal Inflation
 - iii The Emergency Budget
 - (b) Implications of Lack of Monetary and Fiscal Coordination
3. Empirical Applications
 - (a) Trend Inflation in the Seventies
 - (b) The Post-Pandemic Trade-Off between Stagnation and Inflation
 - i The case of the US
 - ii The case of the Euro Area

Main References:

- Leeper (1991)
- Sims (1994)
- Woodford (1994, 2001, 2003)
- Bianchi and Melosi (2013, 2017, and 2019)
- Bianchi and Ilut (2017)
- Leeper, Traum, and Walker (2017)
- Bianchi, Faccini, and Melosi (2020)

- Bianchi, Melosi, Rogantini-Picco (2020)

References

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