

New Keynesian Economics

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Course objective

This half course of the core introduces students to the New Keynesian model. We will derive the New Keynesian Phillips Curve from nominal rigidities, and then study how it interacts with aggregate demand to jointly determine output, employment and inflation over the business cycle. In so doing we will examine various dimensions of monetary and fiscal policies, both in normal times and during liquidity traps.

Readings

The textbook for this course is:

- Jordi Galí. *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications, Second Edition*. Princeton University Press, 2015.

Students seeking a more gentle (advanced undergraduate level) presentation of the New Keynesian model may also have a look at the following text, but it is not required for the course:

- Edouard Challe. *Macroeconomic Fluctuations and Policies*. MIT Press, 2019.

Some extra readings are also indicated below.

Requirements

The grading for this half course will be based on a final exam (90%) and on problem sets (10%) There will be three problem sets for this part of the course. The TA for this course is **Sotirios Georgousis** (sotirios.georgousis@eui.eu).

Outline

Lectures 1-2: The basic New Keynesian model

- Chap. 1 & 2 of Gali (2015), Chap. 2 to 4 of Challe (2019)

- Jordi Galí and Mark Gertler. Inflation dynamics: A structural econometric analysis. *Journal of monetary Economics*, 44(2):195–222, 1999
- Jordi Galí. The state of new keynesian economics: a partial assessment. *Journal of Economic Perspectives*, 32(3):87–112, 2018
- Lawrence J Christiano, Martin Eichenbaum, and Charles L Evans. Nominal rigidities and the dynamic effects of a shock to monetary policy. *Journal of Political Economy*, 113(1):1–45, 2005

Lectures 3-4: Conventional monetary policy

- Chap. 4 & 5 of Galí (2015), Chap. 6 of Challe (2019)
- Richard Clarida, Jordi Galí, and Mark Gertler. The science of monetary policy: a new keynesian perspective. *Journal of economic literature*, 37(4):1661–1707, 1999
- Richard Clarida, Jordi Galí, and Mark Gertler. Monetary policy rules and macroeconomic stability: evidence and some theory. *The Quarterly journal of economics*, 115(1):147–180, 2000
- Jordi Galí and Mark Gertler. Macroeconomic modeling for monetary policy evaluation. *Journal of economic perspectives*, 21(4):25–46, 2007

Lecture 5-6: The zero lower bound and unconventional monetary policy

- Chap. 5 of Galí (2015), Chap. 8 and 9 of Challe (2019)
- Gauti B. Eggertsson and Michael Woodford. Zero bound on interest rates and optimal monetary policy. *Brookings Papers on Economic Activity*, 2003(1):139–233, 2003
- Gauti B. Eggertsson and Paul Krugman. Debt, deleveraging, and the liquidity trap: A Fisher-Minsky-Koo approach. *The Quarterly Journal of Economics*, 127(3):1469–1513, 2012
- Paul R. Krugman. It's baaack: Japan's slump and the return of the liquidity trap. *Brookings Papers on Economic Activity*, 1998:137, 1998

Lecture 7: Fiscal policy

- Chapters 7 and 10 in Challe (2019)
- Gauti B. Eggertsson. What fiscal policy is effective at zero interest rates? In *NBER Macroeconomics Annual 2010, Volume 25*, NBER Chapters, pages 59–112. July 2011
- Jordi Galí, David Lopez-Salido, and Javier Valles. Understanding the effects of government spending on consumption. *Journal of the European Economic Association*, 5(1):227–270, 2007
- Michael Woodford. Simple analytics of the government expenditure multiplier. *American Economic Journal: Macroeconomics*, 3(1):1–35, January 2011