

Advanced Macroeconomic Policy

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Course objective

This full-credit course will introduce students to current macroeconomic policy issues, viewed through the lens of recent developments in macroeconomic theory. The course will cover both substantive questions (monetary and fiscal policy, liquidity traps, secular stagnation, low interest rates, conventional versus unconventional policies, inequalities etc.) and methods: calibration, simulation and estimation of Dynamic Stochastic General Equilibrium (DSGE) models, as well as Two-Agent New Keynesian (TANK) models and Heterogenous-Agent New Keynesian (HANK) models.

Grading

Grading will be based on an in-class presentation and on a written referee report (exact weights TBD).

Topics

The Representative-Agent New Keynesian (RANK) Model

- Chap. 1 & 2 of M. Woodford. *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press, 2003
- 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
- Lawrence J Christiano, Mathias Trabandt, and Karl Walentin. DSGE models for monetary policy analysis. In *Handbook of Monetary Economics*, volume 3, pages 285–367. Elsevier, 2011
- Frank Smets and Rafael Wouters. Shocks and frictions in us business cycles: A bayesian dsge approach. *American Economic review*, 97(3):586–606, 2007
- 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
- Alejandro Justiniano, Giorgio E Primiceri, and Andrea Tambalotti. Is there a trade-off between inflation and output stabilization? *American Economic Journal: Macroeconomics*, 5(2):1–31, 2013

Monetary-Fiscal Interactions

- Marco Bassetto and Wei Cui. The fiscal theory of the price level in a world of low interest rates. *Journal of Economic Dynamics and Control*, 89:5–22, 2018
- Eric M. Leeper. Equilibria under 'Active' and 'Passive' Monetary and Fiscal Policies. *Journal of Monetary Economics*, 27(1):129–147, February 1991
- Eric M Leeper and Campbell Leith. Understanding inflation as a joint monetary–fiscal phenomenon. In *Handbook of Macroeconomics*, volume 2, pages 2305–2415. Elsevier, 2016
- Thomas J Sargent, Neil Wallace, et al. Some unpleasant monetarist arithmetic. *Federal Reserve Bank of Minneapolis Quarterly Review*, 5(3):1–17, 1981
- Laura Castillo-Martinez and Ricardo Reis. How do central banks control inflation? A guide for the perplexed. *Unpublished manuscript*, 2019
- Marco Bassetto and Thomas J. Sargent. Shotgun wedding: Fiscal and monetary policy. *Annual Review of Economics*, 12(1):null, 2020

The Liquidity Trap and Unconventional Policies in RANK

- Ivan Werning. Managing a liquidity trap: Monetary and fiscal policy. NBER Working Papers 17344, National Bureau of Economic Research, Inc, August 2011
- Gauti B Eggertsson et al. Zero bound on interest rates and optimal monetary policy. *Brookings Papers on Economic Activity*, 2003(1):139–233, 2003
- Michael Woodford. Simple analytics of the government expenditure multiplier. *American Economic Journal: Macroeconomics*, 3(1):1–35, January 2011
- Marco Del Negro, Marc Giannoni, and Christina Patterson. The forward guidance puzzle. Staff Reports 574, Federal Reserve Bank of New York, 2015
- 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
- Florin O Bilbiie. Optimal forward guidance. *American Economic Journal: Macroeconomics*, 11(4):310–45, 2019
- John Cochrane. The New Keynesian liquidity trap. *Journal of Monetary Economics*, 92:47 – 63, 2017

Two-Agent New Keynesian (TANK) Models

- Jordi Galí, J David Lopez-Salido, and Javier Valles. Rule-of-thumb consumers and the design of interest rate rules. *Journal of Money, Credit and Banking*, 36(4), August 2004
- 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

- Florin O. Bilbiie. Limited asset markets participation, monetary policy and (inverted) aggregate demand logic. *Journal of Economic Theory*, 140(1):162–196, May 2008
- *Florin O. Bilbiie. The new keynesian cross: Understanding monetary policy with hand-to-mouth households. *Journal of Monetary Economics*, Forthcoming, 2019
- Davide Debortoli and Jordi Galí. Monetary policy with heterogeneous agents: Insights from TANK models. Working paper, 2018
- 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
- Matteo Iacoviello. House prices, borrowing constraints, and monetary policy in the business cycle. *American Economic Review*, 95(3):739–764, 2005

Heterogenous-Agent New Keynesian (HANK) Models

- Veronica Guerrieri and Guido Lorenzoni. Credit crises, precautionary savings, and the liquidity trap. *Quarterly Journal of Economics*, 132(3):1427, 2017
- Wouter den Haan, Pontus Rendahl, and Markus Riegler. Unemployment (fears) and deflationary spirals. *Journal of the European Economic Association*, 16(5):1281 – 1349, 2018
- Adrien Auclert. Monetary policy and the redistribution channel. *American Economic Review*, 109(6):2333 – 2367, 2019
- Greg Kaplan, Benjamin Moll, and Giovanni L. Violante. Monetary policy according to HANK. *American Economic Review*, 108(3):697–743, March 2018
- Ivan Werning. Incomplete markets and aggregate demand. Working Paper 21448, National Bureau of Economic Research, August 2015
- Edouard Challe, Julien Mathéron, Xavier Ragot, and Juan F. Rubio-Ramirez. Precautionary saving and aggregate demand. *Quantitative Economics*, 8(2):435–478, 2017
- Morten O. Ravn and Vincent Sterk. Job uncertainty and deep recessions. *Journal of Monetary Economics*, 90(C):125–141, 2017
- Morten O. Ravn and Vincent Sterk. Macroeconomic fluctuations with HANK & SaM: An analytical approach. *Journal of the European Economic Association*, Forthcoming
- Adrien Auclert, Matt Rognlie, and Ludwig Straub. The intertemporal keynesian cross. Working Paper 25020, 2018
- Tobias Broer, Niels-Jakob Harbo Hansen, Per Krusell, and Erik Öberg. The new keynesian transmission mechanism: A heterogenous-agent perspective. *Review of Economic Studies*, 2019
- Sushant Acharya and Keshav Dogra. Understanding HANK: Insights from a PRANK. *Econometrica*, 88(3):1113–1158, 2020

Policy Analysis in HANK

- Wei Cui and Vincent Sterk. Quantitative easing. Working papers, UCL, 2019
- Marcus Hagedorn, Iourii Manovski, and Kurt Mitman. The fiscal multiplier. Working paper, 2019
- Marcus Hagedorn, Jinfeng Luo, Iourii Manovski, and Kurt Mitman. Forward guidance. *Journal of Monetary Economics*, 102:1–23, 2019
- Alisdair McKay, Emi Nakamura, and Jon Steinsson. The power of forward guidance revisited. *American Economic Review*, 106(10):3133, October 2016
- Edouard Challe. Uninsured unemployment risk and optimal monetary policy in a zero-liquidity economy. *American Economic Journal: Macroeconomics*, 12(2):241–283, April 2020
- Alisdair McKay and Ricardo Reis. The role of automatic stabilizers in the u.s. business cycle. *Econometrica*, 84:141–194, January 2016
- Anmol Bhandari, David Evans, Mikhail Golosov, and Thomas J Sargent. Inequality, business cycles and monetary-fiscal- policy. Working Paper 24710, National Bureau of Economic Research, June 2018
- Sushant Acharya, Edouard Challe, and Keshav Dogra. Optimal monetary policy according to HANK. Staff Report 916, Federal Reserve Bank of New York, February 2020

Models of Secular Stagnation

- Gauti B Eggertsson, Neil R Mehrotra, and Jacob A Robbins. A model of secular stagnation: Theory and quantitative evaluation. *American Economic Journal: Macroeconomics*, 11(1):1–48, 2019
- Olivier Blanchard. Public debt and low interest rates. *American Economic Review*, 109(4):1197–1229, 2019
- Marco Del Negro, Domenico Giannone, Marc P Giannoni, and Andrea Tambalotti. Global trends in interest rates. *Journal of International Economics*, 118:248–262, 2019
- Marco Del Negro, Domenico Giannone, Marc P Giannoni, and Andrea Tambalotti. Safety, liquidity, and the natural rate of interest. *Brookings Papers on Economic Activity*, 2017(1):235–316, 2017
- Gauti B Eggertsson, Manuel Lancastre, and Lawrence H Summers. Aging, output per capita, and secular stagnation. *American Economic Review: Insights*, 1(3):325–42, 2019
- Lawrence H Summers. Demand side secular stagnation. *American Economic Review*, 105(5):60–65, 2015
- Michael T Kiley and John M Roberts. Monetary policy in a low interest rate world. *Brookings Papers on Economic Activity*, 2017(1):317–396, 2017
- Ricardo J Caballero, Emmanuel Farhi, and Pierre-Olivier Gourinchas. The safe assets shortage conundrum. *Journal of Economic Perspectives*, 31(3):29–46, 2017