

Monetary and Fiscal Policy in a Monetary Union

These lectures focus on the interaction of monetary and fiscal policy with an emphasis on the economics of a monetary union. The lectures begin with a presentation of the basic analytics of a monetary overlapping generations model. This model is then used to study a variety of issues concerning the formation and operation of a monetary union. The topics will include a presentation of the interaction of fiscal and monetary policy as well as debt fragility.

I will focus on presentations of material I have written, denoted by a * One of your responsibilities is to present a paper during the term. Please choose from the papers denoted with a #, or suggest to me another paper of interest. In addition each week there will be a written assignment related to these # papers.

Week 1: Analysis of Monetary Overlapping Generations Model

- Azariadis, C. "A Re-examination of Natural Rate Theory," American Economic Review, 71, 1981, 946-60.
- * Cooper, R. "Notes on Overlapping Generations Monetary Models," July 2018.
- * Cooper, R. "Notes on Stationary Rational Expectations Equilibria," July 2018.
- * Cooper, R. "Notes on Overlapping Generations Models of Multiple Currencies," July 2018.
- Lucas, R. "Expectations and the Neutrality of Money," Journal of Economic Theory, 4, 1972, 103-24.
- # Kareken, J. and N. Wallace, "On the Indeterminacy of Equilibrium Exchange Rates" Quarterly Journal of Economics, 96, 1981, 207-222.

Week 2: Gains From a Monetary Union

- * Cooper, R. and H. Kempf, "Establishing a Monetary Union," International Economic Review, 44 (2003), 119-142.
- * Cooper, R. and H. Kempf, "Overturning Mundell: Fiscal Policy in a Monetary Union," Review of Economic Studies, 71 (2004), 371-97.
- # Matsuyama, Kiminori, Nobuhiro Kiyotaki, and Akihiko Matsui. "Toward a theory of international currency." The Review of Economic Studies 60.2 (1993): 283-307.
- # Mundell, Robert A. "A theory of optimum currency areas." *The American economic review* 51, no. 4 (1961): 657-665.

Week 2: Debt Fragility

- # Aguiar, Mark, Manuel Amador, Emmanuel Farhi, and Gita Gopinath. "Coordination and crisis in monetary unions." *The Quarterly Journal of Economics* 130, no. 4 (2015): 1727-1779.
- # Bolton, Patrick, and Olivier Jeanne. "Sovereign default risk and bank fragility in financially integrated economies." *IMF Economic Review* 59, no. 2 (2011): 162-194.
- # Calvo, Guillermo A. "Servicing the public debt: The role of expectations." *American Economic Review* (1988): 647-661.
- * Cooper, R. "Debt Fragility and Bailouts " NBER Working Paper #18377, September 2012, revised April 2015.
- # Cole, Harold L., and Timothy J. Kehoe. "Self-fulfilling debt crises." *Review of Economic Studies* 67.1 (2000): 91-116.

Weeks 3/4: Bailout and Diabolic Loop

Readings:

- # Brunnermeier, Markus K., Luis Garicano, Philip R. Lane, Marco Pagano, Ricardo Reis, Tano Santos, David Thesmar, Stijn Van Nieuwerburgh, and Dimitri Vayanos. "The sovereign-bank diabolic loop and ESBies." *American Economic Review* 106, no. 5 (2016): 508-12.
- *Cooper, R., Hubert Kempf and Dan Peled "Is it is or is it Ain't my Obligation? Regional Debt in a Fiscal Federation," *International Economic Review*, 49 (2008), 1469- 1504.
- * Cooper, R. and Kalin Nikolov "Government Debt and Banking Fragility: The Spreading of Strategic Uncertainty," NBER Working Paper #19278, forthcoming *International Economic Review*.
- # Farhi, Emmanuel, and Jean Tirole. "Collective moral hazard, maturity mismatch, and systemic bailouts." *American Economic Review* 102, no. 1 (2012): 60-93.
- # Farhi, E. and Tirole, J., "Deadly embrace: Sovereign and financial balance sheets doom loops" *The Review of Economic Studies*, 85(3), 1781-1823.
- # Gennaioli, Nicola, Alberto Martin, and Stefano Rossi. "Sovereign default, domestic banks, and financial institutions." *The Journal of Finance* 69, no. 2 (2014): 819-866.
- # Navaretti, Giorgio Barba, Giacomo Calzolari, and Alberto Franco Pozzolo. "Diabolic Loop or Incomplete Union? Sovereign and Banking Risk." *European Economy: Banks, Regulation, and the Real Sector* 2016.1 (2016): 9-28.
- # Neyer, Ulrike, and André Sterzel. Capital requirements for government bonds: Implications for bank behaviour and financial stability. No. 275. DICE Discussion Paper, 2017.

Week 5: Monetary Policy

Readings:

- # Aguiar, Mark, Manuel Amador, Emmanuel Farhi, and Gita Gopinath. Crisis and commitment: Inflation credibility and the vulnerability to sovereign debt crises. No. w19516. National Bureau of Economic Research, 2013.
- # Angeloni, Ignazio, and Ester Faia. "Capital regulation and monetary policy with fragile banks." *Journal of Monetary Economics* 60, no. 3 (2013): 311-324.
- * Antoine Camous and R. Cooper, "Monetary Policy and Debt Fragility," NBER Working Paper #w20650, October 2014, forthcoming AEJ: Macro.
- * Cooper, R. "Regional Debt in Monetary Unions: Is it Inflationary?" (joint with Hubert Kempf and Dan Peled) European Economic Review. 54 (2009), 345-58.
- # Corsetti, Giancarlo, and Luca Dedola. "The mystery of the printing press: Monetary policy and self-fulfilling debt crises." Journal of the European Economic Association 14, no. 6 (2016): 1329-1371