

Advanced Macroeconomic Analysis II:

Part II: Growth and Monetary Macroeconomics

Advanced Master and PhD course, summer term 2021 **Prof. Dr. Frank Heinemann**

Offered in conjunction with the Berlin Doctoral Program in Economics and Management Science

Time: Lecture Wednesdays 8:30 - 10:00 a.m.

Online via Zoom

Recitation Wednesdays 10:15 to 11:45 a.m.

Online via Zoom

First lecture June 2, 2021, last lecture July 14, 2021

Students' tasks: homework and final exam

Slides and problem sets will be provided via the ISIS2 website linked from the URL
http://www.macroeconomics.tu-berlin.de/menue/teaching_lehre/adv_macro_economics_ii/.

The ISIS-key for students is "AMA".

The first part of this course deals with search and matching and is taught by Alexander Kriwolutzky from DIW and FU Berlin. The syllabus and organizational details about the first part of the course will be published in short notice.

Preliminary Course Outline:

Part II: Growth and Monetary Macroeconomics

1. Optimal Growth: Ramsey Model
2. Money and Inflation - The Cagan Model of Money and Prices
3. Money in the Overlapping-Generations Model
4. Modelling Money in the Utility Function and Determinacy of the Price Level
5. Special Topics on Modelling DSGE
 - Monopolistic Competition and Price Rigidities
 - Sticky Prices versus Sticky Information
 - The Forward Guidance Puzzle
 - Strategic Uncertainty

General literature:

Blanchard, Olivier J.; Stanley **Fischer**, *Lectures on Macroeconomic*, MIT Press, 1989.

Cao, Jin, and Gerhard **Illing**, *Money: Theory and Practice*, Springer. 2019.

Walsh, Carl E., *Monetary Theory and Policy*, 2nd edition, MIT-Press, 2003

Woodford, Michael, *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, 2003.

Selected chapters of the following books are required reading for the course:

1. Optimal Growth: Ramsey Model

Barro, Robert, and **Sala-i-Martin**, Xavier, *Economic Growth*, 1995, McGraw Hill.

Blanchard, Olivier J.; Stanley **Fischer**, *Lectures on Macroeconomic*, MIT Press, 1989, Chapter 2.

Romer, David, *Advanced Macroeconomics*, 3rd edition 2006, McGraw Hill.

2. Money and Inflation - The Cagan Model of Money and Prices

Blanchard, Olivier J.; Stanley **Fischer**, *Lectures on Macroeconomic*, MIT Press, 1989, Chapter 4.

Cao, Jin, and Gerhard **Illing**, *Money: Theory and Practice*, Springer. 2019, Chapter 2

Obstfeld, M./ **Rogoff**, K., *Foundations of International Macroeconomics*, MIT Press, 1996, Chapter 8.2.

3. Money in the Overlapping-Generations Model

Blanchard, Olivier J.; Stanley **Fischer**, *Lectures on Macroeconomic*, MIT Press, 1989, Chapter 3.

Bernheim, B. Douglas (1984), Rationalizable Strategic Behavior, *Econometrica* 52, 1007-1028.

Heinemann, F. (1997), Rationalizable Expectations and Sunspot Equilibria in an Overlapping-generations Economy, *Journal of Economics (Zeitschrift für Nationalökonomie)*, 65 (3), pp. 257-277.

Morgenstern, Oskar (1935), Vollkommene Voraussicht und wirtschaftliches Gleichgewicht, *Zeitschrift für Nationalökonomie* 6, 337-357.

Pearce, David G. (1984), Rationalizable Strategic Behavior and the Problem of Perfection, *Econometrica* 52, 1029-1050.

Heinemann, F. (1995), Closing Economic Models by Information Assumptions, Universität Mannheim Discussion paper 518-95.

4. Modelling Money in the Utility Function and Determinacy of the Price Level

Cao, Jin, and Gerhard **Illing**, *Money: Theory and Practice*, Springer. 2019, Chapter 2

Walsh, Carl E., *Monetary Theory and Policy*, 2nd edition, MIT-Press, 2003, Chapters 2-3.

Woodford, Michael, *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, 2003, Chapter 2.

5. Monopolistic Competition and Price Rigidities

Cao, Jin, and Gerhard **Illing**, *Money: Theory and Practice*, Springer. 2019, Chapter 4

Blanchard, Olivier J., and Nobuhiro **Kiyotaki** (1987): Monopolistic Competition and the Effects of Aggregate Demand, *American Economic Review* 77, 647-666.

6. The New Neoclassical Synthesis and Monetary Policy

Clarida, Richard, Jordi **Galí**, and Mark **Gertler** (1999): The Science of Monetary Policy: A New Keynesian Perspective, *Journal of Economic Literature*, vol. 37, no. 4, 1661-1707.

Galí, Jordi. (2001), New Perspectives on Monetary Policy, Inflation, and the Business Cycle, in *Advances in Economics and Econometrics*, volume III, edited by M. Dewatripont, L. Hansen, and S. Turnovsky, Cambridge University Press (NBER WP #8767).

Mankiw, N. Gregory, and Ricardo **Reis**, Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve, *Quarterly Journal of Economics* 117(4), 1295-1328.

7. Forward Guidance Puzzle

Del Negro, Marco, Marc **Giannoni**, and Christina **Patterson** (2015), *Federal Reserve Bank of New York Staff Reports*, no. 574.

McKay, Alisdair, Emi **Nakamura**, and Jón **Szteinson** (2016), *American Economic Review* 106, 3133–3158.

8. Strategic Uncertainty

Farhi, Emmanuel, and Iván **Werning** (2017), Monetary Policy, Bounded Rationality, and incomplete Markets, *NBER Working Paper* 23281.

Other useful books for background reading are:

Handbook of Macroeconomics, North Holland, Edited by J.B. Taylor, Stanford University, and M. Woodford, Princeton University, 1999.

Obstfeld, M./ **Rogoff**, K., *Foundations of International Macroeconomics*, MIT Press, 1996.

Sargent, Thomas J., *Dynamic Macroeconomic Theory*, Harvard Univ. Press, 1987.

Turnovsky, Stephen J., *Methods of Macroeconomic Dynamics*, 2nd edition, MIT Press, 2000.