From Crosses to Micro Foundations:
The Stepping Stone from Monetary Economics in the IS-LM
Model to the New-Keynesian paradigm

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About these notes

The main objective of these notes is to create a reference document that can be useful to all students who want to review bridge the gap between the IS-LM model and the New Keynesian paradigm.

As a chapter author, your job is **NOT** to put together a lot of information that is difficult and tiring to read. Keep always in mind that measuring the quality of your chapter by the lines or pages written is like measuring aircraft building progress by weight.[1] Your job is to facilitate learning and understanding. To explain something to somebody else requires that you deeply **understand** what you are explaining. Hence, your first job is to understand the concepts you need to explain. Then you need to reflect in which is the best way to present those concepts to facilitate learning. Lastly, you have to make sure that the document produced actually accomplishes the purpose for which it is created.

The main sources of information you have are the class slides and what is discussed during the lectures. However, your chapter should not be a transcript of what was explained during each session. You need to create a narrative that connects the concepts covered and helps the reader understand these concepts and the context in which they are relevant. Look into the textbooks, recommended readings, references, etc. and enhance the information covered in the class.

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[1]This is an adaptation of a code from Bill Gates that says "Measuring programming progress by lines of code is like measuring aircraft building progress by weight".

Contents

List of Figures

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Chapter 1

Template chapter

In this chapter you can find a short guideline on how to properly design your chapter. The information here should be almost enough to write your chapter. You should only need external sources to clarify questions you might have. In other words, **try to keep your document as simple as possible**.

Please use British English.

The best online reference for LaTeXis the Wikibook on LaTeX. Moreover, a Google search tends to solve more of the problems one might face.

1.1 This is a section

Organising the information you want to present on your chapter is as important as the information itself. When your write your chapter, you can use sections, subsections, and even *subsubsections*. Make sure not to over do it.

For more information on document structure see this section the LaTeXWikibook.

1.2 This is another section

1.2.1 This is a subsection

And this is a subsubsection

1.3 How to present a graph or table

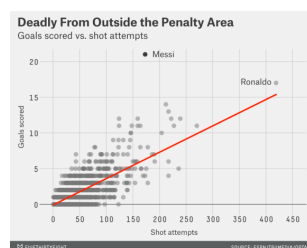To use a graphs we need to create a float-figure like this one:

Figure 1.1: The capiton of each graph should contain a brief description of what appears in the graphs (if the table in the graph is not enough), all the relevant information regarding the type of data displayed, its source, and (if need it) the author of the graph.

Note that all files that contain graphs are saved in the folder *images*. The preferred format for a graph is EPS.

A Table can be created easily by:

1	2	3
4	5	6
7	8	9

Table 1.1: A simple table.

Creating rich tables can be cumbersome. There are online tools that can help, like tables-generator.com.

For more information on floats see this section the LaTeXWikibook.

1.4 How to cite books, articles, and other parts of the same document

The management of a bibliography in LaTeXis extremely important. If properly done, it can save lots of time and effort. The bibliography in this document is organised as follows. There is a file, named "monetary.bib" in that contains all the information on the items cited. Strictly speaking this file is a BiBTeX file. In order to cite an item, the first thing you need to do is to add that item to the BibTeX file. To do so, you can either use a bibliography manager, such as JabRef or you can directly edit the BiBTeX file. I strongly recommend you use the first option if you are new to LaTeX.

Then you need to cite the item within the document. Here you have a citation of an academic article: Cooley and Hansen (1989). Books are cited exactly in the same way within the document: Blanchard (2017). For more information on bibliography management see this section the LaTeXWikibook.

To reference another part of the document is very easy, it only requires creating a label and a reference: see section 1.4. You also use cross-references to refer to figures and tables, like Figure 1.1 or Table 1.1. For more information on labels and cross-referencing see this section the LaTeXWikibook.

1.5 How to present equations

In LaTeXit is very easy to work with equations and mathematical expresions. For example one can easily insert mathematical expressions in the text by writting $a = \frac{b}{c} \times \beta$. Equations can also be inserted by:

$$f(x) = (x + a)(x + b) \tag{1.1}$$

Equations can also be referenced, like Equation 1.1. For more information on mathematics in LaTeXsee this section the LaTeXWikibook.

Part I

Overview of Modern Monetary Policy

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What We Know

Chapter 3

From Money Targeting to Inflation Targeting

Chapter 4

Time Inconsistency, Credibility, and Independence

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Part II

Micro-founded Monetary Policy

Chapter 8

A Cash-in-Advance Model

Chapter 9

Monopolistic Competition

Chapter 10

Sticky Prices

Chapter 11

Optimal Policy with Sticky Prices

Bibliography

Olivier Blanchard. *Macroeconomics*. Pearson, 7 edition, January 2017. Global Edition.

Thomas F. Cooley and Gary D. Hansen. The inflation tax in a real business cycle model. *The American Economic Review*, 79(4):733–748, September 1989.