

# MPhil Macroeconomics

University of Oxford

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Hilary Term 2020-2021

## 1 Lectures

I will pre-record and post online a number of relatively short videos together with the reference slides. Each slide set will cover the material for one topic (see below), which corresponds approximately to one week of lectures. The videos break down the slide sets in shorter self-contained sections that can be viewed separately.

## 2 Q&A Sessions

I will hold a weekly online Q&A session via Zoom on Friday, 12:00-13:00. The Zoom link is available from the ‘Lectures and Timetable’ page on Canvas. I encourage students to email me their questions in advance and to turn their camera on during the session.

## 3 Course Description

This part of the course covers topics in monetary and fiscal policy. We begin by showing that adding money to the standard real business cycle model is not sufficient to capture the empirical regularities about the effects of monetary policy on output (week 1). This step provides the motivation to develop a workhorse model (three-equation New Keynesian model) for monetary policy (week 2). We then look at some applications of the workhorse model (week 3-5) and an extension to incorporate unemployment (week 6). Next, we focus on the interaction between monetary and fiscal policy (week 7). We conclude this part of the course discussing some limitations of the model and possible improvements (week 8).

## 4 Books

The three main references for the course are:

- Galí, J. (2015). *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications*, 2<sup>nd</sup> edition. Princeton University Press, Princeton, NJ. (henceforth JG)
- Walsh, C. (2017). *Monetary Theory and Policy*, 4<sup>th</sup> edition. MIT Press, Cambridge MA. (henceforth CW)
- Woodford, M. (2003). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press, Princeton NJ. (henceforth MW)

The first half of the course will follow JG fairly closely but I also will draw some material also from CW and MW. In addition to these two books, the syllabus lists below some key readings for each topic, which are especially for the second half of the course.<sup>1</sup>

## 5 Topics and References

Below I divide the course in seven parts, which roughly correspond to the weeks of Hilary Term. Since lectures are online this year, I will assign the recordings week by week, breaking down the weekly material in multiple videos. Some topics may end up requiring a bit more than one week.

1. From the RBC to the New Keynesian model: The real effects of monetary policy (theory and evidence).
  - JG: ch. 1 and 2.
  - CW: ch. 1 and 2.
  - Christiano, L., Eichenbaum, M. and Evans, C. (1999). “Monetary Policy Shocks: What Have We Learned and to What End?” in Taylor, J. and Woodford, M. (eds.) *Handbook of Macroeconomics* vol. 1A, ch. 2, pp. 65-148. North-Holland, Amsterdam.
2. The New Neoclassical Synthesis: Monopolistic competition, price rigidities and the three-equation New Keynesian model.

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<sup>1</sup>All published articles are accessible online with the University login. Links to unpublished working papers and book chapters are in blue. Please let me know if you have troubles finding any of the references.

- JG: ch. 3 and 4.
  - CW: ch. 7 and 8.
  - MW: ch. 3 and 4.
  - Goodfriend, M. and R. King (1998). “The New Neoclassical Synthesis and the Role of Monetary Policy,” in Bernanke B. and Rotemberg J. (eds.) *NBER Macroeconomics Annual 1997* 12, ch. 5, pp. 231-296. MIT Press, Cambridge MA.
3. Equilibrium properties and applications: The Taylor principle and inflation stability.
- JG: ch. 3 and 4.
  - CW: ch. 10.
  - MW: ch. 4.
  - Clarida, R., Galí, J. and M. Gertler (2000). “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory,” *Quarterly Journal of Economics* 115, pp. 147-180.
4. Optimal monetary policy: Commitment vs. discretion and the time inconsistency problem.
- JG: ch. 5.
  - CW: ch. 6.
  - MW: ch. 6 and 7.
  - Clarida, R., Galí, J. and Gertler, M. (1999). “The Science of Monetary Policy: A New Keynesian Perspective,” *Journal of Economic Literature* 37, pp. 1661-1707.
5. The lower bound on the nominal interest rate: Analytics, applications and optimal policy.
- CW: ch. 11.
  - Eggertsson, G. and Woodford, M. (2003). “The Zero Interest-Rate Bound and Optimal Monetary Policy,” *Brookings Papers on Economic Activity* 2003:1.
  - Eggertsson, G. (2008). “Great Expectations and the End of the Depression,” *American Economic Review* 90, pp. 1476-1516.
  - Eggertsson, G. (2012). “Was the New Deal Contractionary?” *American Economic Review* 102, pp. 524-555.
  - Eggertsson, G. and Egeev, S. (2020). “[Fundamental Driven Liquidity Traps: A Unified Theory of the Great Depression and the Great Recession](#),” Unpublished.
6. Labor market frictions: Sticky wages and unemployment in the New Keynesian model.
- JG: ch. 6 and 7.

- CW: ch. 8.
  - MW: ch. 4.
  - Galí, J. (2011). “Monetary Policy and Unemployment,” in Friedman, B. and Woodford, M. (eds.) *Handbook of Monetary Economics* vol. 3A, ch. 10, pp. 487-546. Elsevier, Amsterdam.
7. Monetary and fiscal policy interaction: Implications for equilibrium determinacy, the fiscal theory of the price level, optimal monetary and fiscal policy, fiscal multipliers.
- Cochrane, J. (2021). *The Fiscal Theory of the Price Level*. Work in progress.
  - Leeper, E. (1991). “Equilibria Under ‘Active’ and ‘Passive’ Monetary and Fiscal Policies,” *Journal of Monetary Economics* 27, pp. 129-147.
  - Woodford, M. (1995). “Price Level Determinacy Without Control of a Monetary Aggregate,” *Carnegie-Rochester Conference Series on Public Policy* 43, pp. 1-46.
  - Woodford, M. (2001). “Fiscal Requirements for Price Stability,” *Journal of Money, Credit and Banking* 33, pp. 669-728.
  - Benigno, P. and Woodford, M. (2004). “Optimal Monetary and Fiscal Policy: A Linear-Quadratic Approach,” in Gertler, M. and Rogoff, K. (eds.) *NBER Macroeconomics Annual 2003* 18, ch. 5, pp. 271-364.
  - Eggertsson, G. (2011). “What Fiscal Policy Is Effective at Zero Interest Rates?” in Acemoglu, D. and Woodford, M. (eds.) *NBER Macroeconomics Annual 2010* 25, ch. 2, pp. 59-142.
8. Pitfalls of the New Keynesian model and possible solutions: The ‘forward guidance puzzle’ and the ‘missing deflation puzzle.’
- Del Negro, M., Giannoni, M. and Patterson, C. (2015). “[The Forward Guidance Puzzle](#),” Federal Reserve Bank of New York Staff Report No. 574.
  - McKay, A., Nakamura, E. and Steinsson, J. (2016). “The Power of Forward Guidance Revisited,” *American Economic Review* 106, pp. 3133-3158.
  - Lindé, J. and Trabandt, M. (2019). “[Resolving the Missing Deflation Puzzle](#),” CEPR Discussion Paper 13690.
  - Bilbiie, F. (2019). “[Monetary Policy and Heterogeneity: An Analytical Framework](#),” Unpublished.