

Introduction to Monetary Economics^{*}

PUC Rio, MA/PhD 2025

Course Information

Instructor: Fernando Mendo (fmendolopez@gmail.com)

Time: Tuesdays, 4pm-7pm. **Location:** Room F306

Teaching Assistant: Flavio Perez Rojo (flavio.perez@pucp.edu.pe)

Office Hours: By appointment

Course Description

This course corresponds to the first half of Macroeconomics II, the second course of the first-year graduate-level macroeconomics sequence. The course aims to introduce the students to Monetary Economics. We start with a brief discussion of classical monetary models (money in utility and cash-in-advance constraints). The lion's share of the course is devoted to the New Keynesian framework. We study the baseline New Keynesian model and its implications for the conduct of monetary policy. Extensions of the baseline model are also considered including the introduction of nominal wage rigidities, unemployment and open economy factors. The last section of the course introduces students to the Fiscal Theory of the Price Level (FTPL).

Evaluation

There will be homework assignments that include analytic and computational questions. Details about their weight in the final grade detailed in the syllabus of the second half.

**Preliminary and subject to changes.*

Course Outline

Classical Monetary Models

1. **Classical Monetary Models.** Models with money in the utility function. Models with a cash-in-advance constraint.

References: Galí (2015, ch. 2)*, Walsh (2010, ch.2-3)*, Woodford (2003, ch.1-2), McCandless (2008, ch.8-9), Cooley and Hansen (1989)

New Keynesian Framework

2. **The basic New Keynesian model.** The basic New Keynesian model. Empirical evidence on price-setting.

References: Galí (2015, ch.1 & 3)*, Walsh (2010, ch. 1, 6 &. 8), Woodford (2003, ch.3-5), Christiano *et al.* (2010, sec.1-3), Klenow and Malin (2010), Nakamura and Steinsson (2013)

3. **Monetary Policy Design and Tradeoffs.** Monetary policy design in the basic New Keynesian model. Monetary policy design with short-run tradeoffs.

References: Galí (2015, ch.4-5)*, Woodford (2003, ch.6-8), Taylor (1999), Rotemberg and Woodford (1999), Clarida, Galí and Gertler (1999, 2000), Blanchard and Kahn (1980)

4. **Sticky Wages and Unemployment.** Nominal wage rigidities in the basic New Keynesian model. Unemployment in the New Keynesian model.

References: Galí (2015, ch.6-7)*, Erceg, Henderson and Levin (2000), Blanchard and Galí (2010), Galí (2010, 2011), Basu and House (2016)

5. **Monetary Policy in the Open Economy**

A small open economy New Keynesian model. The SAMBA from the BCB.

References: Galí (2015, ch. 8)*, Galí and Monacelli (2005), de Castro *et al.* (2011)

Fiscal Theory of the Price Level (FTPL)

6. Fiscal Theory of the Price Level (FTPL) One Period Fiscal Theory. Two-period fiscal theory and fiscal policy. An Intertemporal Model. Fiscal Theory in Sticky Price Models. FTPL and the New-Keynesian Model.

References: Cochrane (2023)

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