

Econ 8702 – Monetary Economics

Syllabus

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Course Overview

In this course we will study papers dealing with two topics that have played a major role in the recent research in monetary economics: monetary/fiscal interactions and information frictions. In the first part of the course, we will revisit the problem of equilibrium multiplicity in monetary models, and discuss how fiscal policy can be used as an “anchor” to prune equilibria. We will then study broader implications of the joint budget constraint that ties monetary and fiscal authorities, particularly as it relates to the way monetary policy has been conducted in the last 15 years. In the second part of the course, we will consider the role of monetary policy in environments with information frictions. We will start from some abstract papers dealing with environment with dispersed information, and then consider applications that have used the general ideas to study the response of the economy to policy shocks, as well as revisit the question of equilibrium multiplicity in this context. This list is tentative; I will make adjustments as we go along. I plan to present starred readings. Other papers are there as background, or as options for you to present if you are interested.

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Grading

Your grade will be based on a class presentation of a paper of your choice. Please get in touch with me by April 1st with a paper suggestion. You can pick from some of the readings in the syllabus that I will not cover, or ask me for further advice, or make your own suggestion, as long as it fits with the theme of the course.

1 Monetary/Fiscal Interaction in Ramsey Models (background topic, not covered in class)

- Lucas and Stokey (1983)
- Siu (2004)
- Aiyagari, Marcet, Sargent, and Seppälä (2002)
- Bassetto (2014)
- Bhandari, Evans, Golosov, and Sargent (2016)
- Bhandari, Evans, Golosov, and Sargent (2017)
- Bhandari, Evans, Golosov, and Sargent (2018)
- Auclert (2019)

2 Review of Price Level Determinacy and the Fiscal Theory of the Price Level, Regime Switching

- * Bassetto (2017), chapters 2-4
- Woodford (1994)

- Clarida, Galí and Gertler (1999)
- Clarida, Galí and Gertler (2000)
- * Cochrane (2001)
- Cochrane (2005)
- Cochrane (2011)
- Cochrane (2023)
- Chung, Davig, and Leeper (2007)
- Davig and Leeper (2007)
- Davig and Leeper (2010)

3 Some Empirical Work Related to the Monetary/Fiscal Interactions

- Canzoneri, Cumby, and Diba (2010)
- Bianchi and Melosi (2019)
- Bianchi, Melosi, and Rottner (2019)
- Bianchi and Melosi (2022)
- Bianchi, Faccini, and Melosi (2023)
- *Barro and Bianchi (2023)
- Hall and Sargent (2011)
- Hall and Sargent (2014)

- Hall and Sargent (2015)
- Hall and Sargent (2018)
- *Hall and Sargent (2023)
- Payne, Szöke, Hall, and Sargent (2024)

4 Central Banking in the Fiscal Theory of the Price Level

- Sargent and Wallace (1981)
- *Sims (2001)
- * Bassetto and Messer (2013)
- Greenlaw, Hamilton, Hooper, and Mishkin (2013)
- Hall and Reis (2015)
- Del Negro and Sims (2015)
- Reis (2017)
- * Bassetto and Caracciolo (2021)

5 Strategic Models of Monetary/Fiscal Interaction

- * Camous and Matveev (2023)
- Barthélemy, Mengus, and Plantin (2021)

6 Monetary/Fiscal Interaction with Low Interest Rates

- Sargent and Wallace (1982)
- Blanchard (2019)
- Bassetto and Sargent (2020)
- *Bassetto and Cui (2018)
- Mehrotra and Sergeyev (2021)
- Brumm, Feng, Kotlikoff, and Kubler (2021)
- Reis (2021)
- Aguiar, Amador, and Arellano (2021)
- Mian, Straub, and Sufi (2022)
- *Angeletos, Lian, and Wolf (2023)

7 Fiscal Capacity in Finance

- Hansen, Roberds, and Sargent (1991)
- Hilscher, Raviv, and Reis (2021)
- Jiang, Lustig, Nieuwerburgh, and Xiaolan (2022)
- Jiang, Lustig, Nieuwerburgh, and Xiaolan (2023)

8 Global Games and Equilibrium Selection (background topic)

- Carlsson and van Damme (1993)

- Morris and Shin (1998)
- Chamley (1999)
- Angeletos, Hellwig, and Pavan (2006)
- Angeletos, Hellwig, and Pavan (2007)

9 The Social Value of Public Information

- *Morris and Shin (2002)
- *Angeletos and Pavan (2007)
- *Angeletos and Pavan (2009)
- Hellwig and Veldkamp (2009)
- Chahrour (2014)
- Caracciolo (2022)

10 Business Cycle Theories Based on Dispersed Information

- Maćkowiak and Wiederholt (2009)
- Lorenzoni (2009)
- Angeletos and La'O (2010)
- Lorenzoni (2010)
- *Angeletos and La'O (2013)
- Paciello and Wiederholt (2013)

- Maćkowiak and Wiederholt (2015)
- Angeletos and La'O (2020)

11 Equilibrium Selection and Policy with Dispersed Information

- *Angeletos and Sastry (2021)
- *Angeletos and Lian (2023)

12 Merging Dispersed Information and Fiscal Sustainability

- Hellwig, Mukherji, and Tsyvinski (2006)
- Albagli, Hellwig, and Tsyvinski (2011)
- *Bassetto and Galli (2019)
- *Bassetto and Miller (2022)
- *Gaballo and Galli (2024)

References

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