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**Goethe-University Frankfurt**  
**Winter Term 2019/20**

## **Monetary and Fiscal Policy: Theory and Practice**

### **Field Course (4 CP, Macroeconomics)**

#### **General Information and Schedule**

This lecture is a 2<sup>nd</sup> year Ph.D./MSQE field course (4 CP, Macroeconomics) taking place during the 2<sup>nd</sup> half of the winter term 2019/20.

#### Time and location:

The lectures are scheduled to take place mainly on Mondays at 9.30-12.45 p.m. For a detailed schedule we kindly refer to the university course overview (<http://qis.server.uni-frankfurt.de/>) and to the dedicated webpage of the course:

[www.imfs-frankfurt.de/en/chairs/monetary-economics/teaching/ws-20192020.html](http://www.imfs-frankfurt.de/en/chairs/monetary-economics/teaching/ws-20192020.html)

First lecture: Monday, December 9, 2019

Last lecture: Wednesday, February 12, 2020

Teaching Assistant: Lazar Milivojevic (HoF 4.57)

Registration: Please send an e-mail to Lazar Milivojevic ([lazar.milivojevic@hof.uni-frankfurt.de](mailto:lazar.milivojevic@hof.uni-frankfurt.de)) to confirm that you wish to obtain course information and whether you will take this course for credit. Please include your matriculation number, student status (Ph.D. or MSQE), year of study and full name. Please note that in order to obtain credit points for the course it is also required to register for the course at the Office of Academic Records at GSEFM.

#### **Course Requirements**

There will be two problem sets which aim to facilitate studying and applying the various models and concepts in practice. In addition, there is a final exam. The course grade will depend on the achievement in both the final exam (70%) and in the problem sets (30%).

#### **Course Overview, Objective and Background Readings**

The objective of this course is to provide an introduction to the analysis of monetary and fiscal policy making with practical applications to current policy challenges. Examples from the European Union, the United States and Japan will be discussed. We will develop theoretical models of monetary and fiscal policy and learn how

different policy recommendations can be evaluated using these models. Students will conduct practical simulation exercises and make use of MATLAB-based software tools for model analysis.

The following lists summarize the main topics of the lectures and the relevant background readings. Further details regarding the schedule, slides and handouts will be provided during the course.

*Short Outline:*

1. Introduction
2. Monetary models and monetary policy rules
3. Optimal Control and New Keynesian modelling: Inflation targeting and the ECB
4. Quantitative easing and the zero bound on nominal interest rates
5. Government budget constraints and monetary-fiscal policy linkages
6. Fiscal stimulus and multiplier effects
7. Government debt dynamics and fiscal consolidation
8. Financial accelerator, housing markets and macro-prudential regulation

*Background Readings:*

Book Chapters:

Schmidt, S. and Wieland, V. (2013), “The New Keynesian Approach to Dynamic General Equilibrium Modeling: Models, Methods and Macroeconomic Policy Evaluation”, Handbook of Computable General Equilibrium Modeling, Vol. 1B, Elsevier.

Walsh, C. (2010). Monetary Theory and Policy, MIT Press, 3<sup>rd</sup> edition, Chapter 8: New Keynesian Monetary Economics.  
Chapter 4: Money and Public Finance.

Wieland, V., (Editor), The Science and Practice of Monetary Policy Today, Springer Science, 2009, ISBN: 978-3-642-02952-3, Chapters 1, 2, 3 and 5.

Wieland, V., Afanasyeva, E., Kuete, M. and Yoo, J. (2016), “New Methods for Macro-Financial Model Comparison and Policy Analysis,” in John B. Taylor and Harald Uhlig (eds.), Handbook of Macroeconomics: Vol 2, North Holland/Elsevier, 2016.

Wieland, V. and Wolters, M. (2013), “Forecasting and Policy Making”, in, Elliott, G. and A. Timmermann (eds.), Handbook of Economic Forecasting, Vol. 2, Elsevier.

Journal Articles:

Beck, G. and Wieland V. (2008), "Central Bank Misperceptions and the Role of Money in Interest Rate Rules", Journal of Monetary Economics, 55 (S1), p. S1-S17, October.

Clarida, R., Gali, J. and Gertler, M. (1999). "The Science of Monetary Policy: A New Keynesian Perspective," Journal of Economic Literature, American Economic Association, 37(4), p. 1661-1707, December.

Cogan, J.F., Taylor, J.B., Wieland, V. and Wolters, M. (2013), "Fiscal Consolidation Strategy", Journal of Economic Dynamics and Control, 37, p. 404 – 421, February.

Coenen, G., McAdam, P. and Straub, R. (2008), "Tax Reform and Labour-Market Performance in the Euro Area: A Simulation-Based Analysis Using the New Area-Wide Model", Journal of Economic Dynamics and Control, 32(8), p. 2543-2583.

Coenen, G., Orphanides, A. and Wieland, V. (2004), "Price Stability and Monetary Policy Effectiveness when Nominal Interest Rates are Bounded at Zero", Advances in Macroeconomics, 4(1), Art. 1, January.

Cogan, J., Cwik, T., Taylor, J.B. and Wieland, V. (2010), "New Keynesian versus Old Keynesian Government Spending Multipliers", Journal of Economic Dynamics and Control", 34(3), p. 281-295, March.

Cwik, T. and Wieland, V. (2011), "Keynesian Government Spending Multipliers and Spillovers in the Euro Area", Economic Policy, 26( 67), p. 493-549 (also ECB WP 1267).

Gerlach, S., Schnabel, G. (2000). "The Taylor rule and interest rates in the EMU area," Economics Letters, Elsevier, 67(2), p. 165-171, May.

Kuester, K. and Wieland, V. (2010), "Insurance Policies for Monetary Policy in the Euro Area", Journal of the European Economic Association, 8(4), p. 872-912.

Orphanides, A. and Wieland, V. (2013), "Complexity and Monetary Policy", International Journal of Central Banking", 9(S1), p. 167-204, January.

Orphanides, A. and Wieland, V. (2008), "Economic Projections and Rules-of-Thumb for Monetary Policy", Federal Reserve Bank of St. Louis Review, 90 (4), July/ August.

Orphanides, A. and Wieland, V. (2000), "Efficient Monetary Policy Design Near Price Stability", Journal of the Japanese and International Economies, 14, p. 327-365.

Svensson, L. (1997), "Inflation Forecast Targeting: Implementing and Monitoring Inflation Targets", European Economic Review, 41, p. 1111-1146.

Taylor, J.B. and Wieland, V. (2012), "Surprising Comparative Properties of Monetary Models: Results from a New Monetary Model Base", Review of Economics and Statistics, 94, p. 800-816.

Woodford, Michael (2010), "Simple Analytics of the Government Spending Multiplier", American Economic Journal: Macroeconomics, American Economic Association, 3(1), p. 1-35, January.

Wieland, Volker (2010), "Quantitative Easing: A Rationale and some Evidence from Japan", in Reichlin, Lucrezia and Kenneth West (eds.), NBER International Seminar on Macroeconomics 2009, NBER and University of Chicago Press.

Wieland, Volker (2012), "Next Hike End of 2014: FOMC Matches Historical Responses to Member's Forecasts and Risks Repeating Earlier Mistakes", Policy Platform, White Paper No. 02, February.

Wieland, V., Cwik, T., Mueller, G., Schmidt, S. and Wolters, M. (2012), "A New Comparative Approach to Macroeconomic Modelling and Policy Analysis", Journal of Economic Behavior and Organisation, 83, p. 523-541, August.