

Prof. Volker Wieland, Ph.D.
Professor for Monetary Theory and Policy
Goethe University Frankfurt
Winter Semester 2012/2013

Monetary and Fiscal Policy: Theory and Practice

Field Course (4 CP, Macroeconomics)

General Information and Schedule

This lecture is a 2nd year Ph.D. / MSQE (Research Track) field course (4 CP, Macroeconomics) taking place during the 1st half of the winter semester 2012/2013.

Time: Tuesdays 10 - 12 a.m. and Wednesdays 10 - 12 a.m.

Location: Tuesdays and Wednesdays: Room Toronto, HoF 3.68

Notes: Tuesday, 23.10.2012: Room Deutsche Bank, HoF E.01

Wednesday, 24.10.2012: Room Deutsche Bank, HoF E.01

Tuesday, 06.11.2012: Room Deutsche Bank, HoF E.01

Wednesday, 07.11.2012: Room Dubai, HoF 1.27

First lecture: Tuesday, October 23, 2012

Last lecture: Wednesday, December 5, 2011

Teaching Assistants: Anamaria PiloIU (HoF 4.53), office hours: Tuesdays 2 – 4 p.m.; Pinar Topal (HoF 4.47)

Registration: Please send an e-mail to Anamaria PiloIU (piloIU@wiwi.uni-frankfurt.de) to confirm that you wish to obtain regular course information and whether you will take this course for credit. Please include your “matrikel” number, student status (Ph.D. program, MSQE,...) and full name.

Course Requirements

Throughout the course two problem sets will be offered to allow you to study and apply the various models and concepts in practice. There will also be a final exam. The course grade will depend on the final exam (70%) and on 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 is an outline listing the main topics of the lectures and 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 policies
3. Monetary policy in the financial crisis: The zero bound on nominal interest rates and quantitative easing
4. Government budget constraints and monetary-fiscal policy linkages
5. Fiscal stimulus and multiplier effects
6. Government debt dynamics and fiscal consolidation

*Background Readings: (required *)*

Book Chapters:

Ljungqvist, Lars and Sargent, Thomas, 2004. Recursive Macroeconomic Theory, MIT Press, Second Edition, Chapter 11: Fiscal Policies in the Growth Model. *

Walsh, Carl, 2010. Monetary Theory and Policy, MIT Press, 3rd edition, Chapter 8: New Keynesian Monetary Economics. *
Chapter 4: Money and Public Finance. *

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

Schmidt, Sebastian and Wieland, Volker, 2012, “The New Keynesian Approach to Dynamic General Equilibrium Modelling: Models, Methods and Macroeconomic Policy Evaluation”, forthcoming in, Dixon, P. and Jorgensen, D. (eds.), Handbook of Computable General Equilibrium Modelling, Elsevier.

Wieland, Volker and Wolters, Maik, 2012, “Forecasting and Policy Making”, forthcoming in, Elliott, G. and A. Timmermann (eds.), Handbook of Economic Forecasting, Vol. 2, Elsevier.

Journal Articles:

Beck, Günter and Volker Wieland, “Money in Monetary Policy Design: A Formal Characterization of ECB-Style Cross-Checking,” Journal of the European Economic Association, 5(2-3), April-May 2007.

Beck, G. and V. Wieland, 2010, Money in Monetary Policy Design: Monetary Cross-Checking in the New-Keynesian Model, The Science and Practice of Monetary Policy Today, Springer Science, December 2009, (also ECB-WP 1191).*

Beck, Günter and Volker Wieland, “Central Bank Misperceptions and the Role of Money in Interest Rate Rules”, Journal of Monetary Economics, 55 (S1), October 2008. *

Burgert, Matthias and Wieland, Volker, 2012, “The role of tax policy in fiscal consolidation: Insights from macroeconomic modelling”, manuscript, October.

Cogan, John F., John B. Taylor, Volker Wieland, Maik Wolters, 2012, “Fiscal Consolidation Strategy”, forthcoming in Journal of Economic Dynamics and Control. *

Christiano, Lawrence, Martin Eichenbaum and Sergio Rebelo, 2011. “When is the government spending multiplier large?” Journal of Political Economy, University of Chicago Press, vol. 119(1), pages 78 - 121.

Coenen, Gunter, Peter Mc Adam and Roland Straub, 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), 2543-2583.

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

Cogan, John, Tobias, Cwik, John B. Taylor and Volker Wieland, (2010), Old Keynesian versus New Keynesian Government Spending Multipliers, Journal of Economic Dynamics and Control, 34, 3. *

Corsetti, Giancarlo, Andre Meier and Gernot Müller 2010, Cross-border spillovers from fiscal stimulus, International Journal of Central Banking, March.

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

Davig, T., Leeper, E., 2009. Monetary-Fiscal Policy Interactions and Fiscal Stimulus. NBER Working Paper 15133.

Gali, J., Lopez-Salido, D., Valles, J., 2007, Understanding the Effects of Government Spending on Consumption, Journal of the European Economic Association 5, 227-270.

Issing, Otmar, 2008, “The Euro: Does a Currency Need a State?” International Finance, 11:3, 297-310. *

- Issing, Otmar, 2010, "Moment of Truth Postponed" OMFIF Bulletin.
(Translated and abbreviated version of "Krise des Euro? – Krise Europas?",
Akademie der Wissenschaften und Literatur, November 2010). *
- Kuester, K. and V. Wieland, 2010, Insurance Policies for Monetary Policy in
the Euro Area, Co-author: Keith Kuester, Journal of the European Economic
Association, Vol. 8, No. 4: 872-912.
- Orphanides, A. and V. Wieland, 2000, Efficient Monetary Policy Design Near
Price Stability, Journal of the Japanese and International Economies, Vol. 14,
pp. 327-365. *
- Orphanides, A. and V. Wieland, 2012, "Complexity and Monetary Policy",
forthcoming in International Journal of Central Banking.
- Sinn, Hans-Werner, 2010, Rescuing Europe, CES-Ifo Forum, Vol. 11, August
2010.
- Svensson, Lars, "Inflation Forecast Targeting: Implementing and Monitoring
Inflation Targets", European Economic Review, 1997, 41, pp. 1111-1146. *
- Taylor, John B., 2009. The Lack of an Empirical Rationale for a Revival of
Discretionary Fiscal Policy. American Economic Review, 99, No. 2.
- Taylor, John B. and Wieland, Volker, 2012, "Surprising Comparative
Properties of Monetary Models: Results from a New Monetary Model
Base", Review of Economics and Statistics, Vol. 94, No. 3: 800-816.
- Woodford, Michael, 2010. "Simple Analytics of the Government Spending
Multiplier", American Economic Journal: Macroeconomics, American
Economic Association, vol. 3(1), pages 1-35, January.*
- Wieland, Volker, 2011. Fiscal Stimulus and the Promise of Future Spending
Cuts, International Journal of Central Banking, 6, 1, March 2010.
- 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., Wolters, M., 2010. „A New
Comparative Approach to Macroeconomic Modelling and Policy Analysis”,
forthcoming in Journal of Economic Behavior and Organisation. *