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**Goethe-University Frankfurt**  
**Summer Semester 2014**

## **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 1<sup>st</sup> half of the summer semester 2014.

Time: Tuesdays 10 - 12 a.m. and Wednesdays 10 - 12 a.m.  
Location: Tuesdays and Wednesdays: Room Sydney (House of Finance 3.45)  
First lecture: Wednesday, April 16, 2014  
Last lecture: Wednesday, May 28, 2014

Teaching Assistant: Tilman Bletzinger (HoF 4.50), office hours: Tuesdays 2 – 4 p.m.

Registration: Please send an e-mail to Tilman Bletzinger ([bletzinger@econ.uni-frankfurt.de](mailto:bletzinger@econ.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. or MSQE), year of study 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 policy rules
3. Optimal 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

*Background Readings: (required \*)*

Book Chapters:

Walsh, Carl, 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, 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.

Wieland, Volker and Wolters, Maik, 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.

Issing, Otmar (2008), ”The Euro: Does a Currency Need a State?” International Finance, 11(3), p. 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 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. \*

Sinn, Hans-Werner (2010), “Rescuing Europe”, CES-Ifo Forum, 11, August.

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.\*