

Departamento de Economia
PUC - RIO
MACRO II

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Syllabus

1. Real business cycles

a. Setting up a standard Real Business Cycle model

- i. Basic framework**
- ii. Solution to the model (linearization)**
- iii. Numerical tools**

b. Extensions

- i. Endogenous labour decisions**
- ii. Introducing real rigidities**

c. Decentralizing the model

- i. Rental model**
- ii. Capital ownership model**

- (*) Romer, D. (2005). Advanced Macroeconomics, 3a edição, chapter 4
- (*) Obstfeld and Rogoff, Foundations of International Economics, chapter 7, section 7.4.3 and Supplement C to Chapter 2.
- King, Robert G., Charles I. Plosser, and Sergio Rebelo (1988), "Production, growth and business cycles: I." Journal of Monetary Economics 21, 195-232.
- Campbell, John Y. (1994), "Inspecting the mechanism: an analytic approach to the stochastic growth model." Journal of Monetary Economics 33, 463-506.
- McCallum, Bennett T., 1998. "Solutions to linear rational expectations models: a compact exposition" Economics Letters, Elsevier, vol. 61(2), pages 143-147
- Reds and Solds Algoritims: <http://www.columbia.edu/~mw2230>
- Dynare site: <http://www.cepremap.cnrs.fr/dynare/>

2. Asset pricing models

- a. Consumption based asset pricing models**
- b. Asset prices under different preference specifications**
- c. Asset prices in production economies**
- d. Higher order approximation and time variation in the risk premium**
- e. (time permitting) FX risk premium, Term premia**

- (*) Cochrane, J. (2001) Asset Pricing, chapter 1, chapter 21
- (*) Campbell, J. Lo, A. W. & MacKinlay, A. C., The Econometrics of Financial Markets, chapter 8
- Lettau, Martin (2003), "Inspecting the mechanism: closed-form solutions for asset prices in real business cycle models" The Economic Journal 113, 550-575.
- Campbell, John and John Cochrane. "By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior", April 1999, Journal of Political Economy.
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- De Paoli, Bianca, Alasdair Scott and Olaf Weeken (2006), "Asset pricing implications of a New Keynesian model", Bank of England WP 326
- De Paoli, B. and Sondergaard, J. (2008), "A canonical model of the FX risk premium", forthcoming BoE WP <http://personal.lse.ac.uk/DEPAOLI/>
- De Paoli, B. and Zabczyk, (2007), "Why do risk premia vary over time: a theoretical investigation under habit formation" forthcoming BoE WP, <http://personal.lse.ac.uk/DEPAOLI/>

3. New Keynesian models

- a. Money in the classical RBC framework**
- b. The basic New Keynesian model: introducing nominal rigidities**

- (*) Gali, Jordi (2007), "Monetary Policy, Inflation and the Business Cycle", Chapter 2 and 3.
- (*) Woodford, Michael (2003), "Interest and Prices," Princeton University Press, Chapter 3.
- Calvo, Guillermo (1983), "Staggered Prices in a Utility-Maximising Framework," *Journal of Monetary Economics* 12, pp 983-998.
- Smets, Frank; Wouters, Raf (2003) "An estimated stochastic dynamic general equilibrium model of the euro area," *Journal of the European Economic Association* 1(5), pp 1123-1175.

4. Monetary Policy Evaluation in a new Keynesian model

- a. Distortions and the role of monetary policy**
- b. Optimal monetary policy and the performance of simple policy rules**
- c. Formulating the objective function for the central bank**

- (*) Gali, Jordi (2007), "Monetary Policy, Inflation and the Business Cycle", Chapters 4
- (*) Woodford, Michael (2003), "Interest and Prices," Princeton University Press, Chapters 6, 7, 8.
- Clarida, Richard; Gali, Jordi; Gertler, Mark (1999), "The Science of Monetary Policy: A New Keynesian Perspective," *Journal of Economic Literature* 37, pp 1661-1707.
- Rotemberg, Julio; Woodford, Michael (1999), "Interest-Rate Rules in an Estimated Sticky Price Model," in Taylor (eds), "Monetary Policy Rules," University of Chicago Press
- Benigno, P., Woodford, M., (2005), "Inflation Stabilization and Welfare: The Case of a Distorted Steady State," *Journal of the European Economic Association*, 3(6): 1-52
- Benigno, P., Woodford, M., (2007), "Linear-Quadratic Approximation of Optimal Policy Problems" <http://www.columbia.edu/mw2230>

5. Extensions to the baseline New Keynesian Model

- a. Introducing sticky wages**
- b. Open Economy**

- (*) Gali, Jordi (2007), "Monetary Policy, Inflation and the Business Cycle", Chapter 6 and 7
- Erceg, Christopher J., Dale W. Henderson, and Andrew T. Levin (2000): "Optimal Monetary Policy with Staggered Wage and Price Contracts", *Journal of Monetary Economics* vol. 46, no. 2, 281-314.
- Benigno, G., Benigno, P., (2006) "Designing Targeting Rules for International Monetary Policy Cooperation," *Journal of Monetary Economics* 53, pp 473-506.
- De Paoli, B., (2007), "Monetary Policy and Welfare in a Small Open Economy," forthcoming *Journal of International Economics* (<http://personal.lse.ac.uk/DEPAOLI/>)
- Gali, G., Monacelli, T. (2005), "Monetary Policy and Exchange Rate Volatility in a Small Open Economy" *Review of Economic Studies* 72, pp 707-734.

6. Interaction between fiscal and Monetary Policy

- (*) Benigno, P., Woodford, M., (2004), "Optimal Monetary and Fiscal Policy: A Linear-Quadratic Approach," in M. Gertler and K. Rogoff, eds., *NBER Macroeconomics Annual 2003* Cambridge (US): MIT Press.
- Walsh, Carl (2003), "Monetary Theory and Policy," MIT Press, Chapter 4.
- Benigno, G., De Paoli, B. (2005), "Optimal Monetary and Fiscal Policy for a Small Open Economy," <http://personal.lse.ac.uk/BENIGNO/>