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**Goethe University Frankfurt**  
**Winter Semester 2011/2012**

## **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 (Research Track) field course (4 CP, Macroeconomics) taking place during the 1<sup>st</sup> half of the winter semester 2011/2012.

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

Location: Tuesdays Room Sydney (HoF 3.45), Thursdays Room Chicago (HoF 3.36)

First lecture: Thursday, October 20, 2011

Last lecture: Thursday, December 1, 2011

Note: no lecture on November, 17 2011; this lecture will take place on November, 22 2011 13-15 p.m. in Room Boston (HoF 2.45).

Teaching Assistants: Elena Afanasyeva (3.59 HoF), Matthias Burgert (3.52 HoF), office hours TBA.

Registration: Please send an e-mail to Elena Afanasyeva ([eafanasyeva@wiwi.uni-frankfurt.de](mailto:eafanasyeva@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 with applications to the ECB and other central banks
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. Fiscal policy in the EMU and the Maastricht treaty
7. Government debt dynamics and the EMU sovereign crisis

*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.\*

Romer, David, 2006. Advanced Macroeconomics, McGraw-Hill Irwin, 3<sup>rd</sup> edition, Chapter 11: Budget Deficits and Fiscal Policy.

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.

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.\*

Beetsmaa, Roel, and Henrik Jensen, Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union, Journal of International Economics, 67, 2, December 2005.

Christiano, Lawrence, Martin Eichenbaum and Sergio Rebelo, 2009. When is the government spending multiplier large? NBER Working Paper, 15394.

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.

Dixit, Avinash and Luisa Lambertini, Monetary-Fiscal Policy Interactions and Commitment versus Discretion in a Monetary Union, European Economic Review, 45, (4-6), May 2001, Pages 977-987.

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.\*

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, J.B., 2009. The Lack of an Empirical Rationale for a Revival of Discretionary Fiscal Policy. American Economic Review, 99, No. 2.

Woodford, Michael, 2010. Simple Analytics of the Government Spending Multiplier, NBER Working Paper, 15714.\*

Wieland, Volker, 2010. 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, V., Cwik, T., Mueller, G., Schmidt, S., Wolters, M., 2010. A New Comparative Approach to Macroeconomic Modelling and Policy Analysis. Manuscript, University of Frankfurt. \*