

Prof. Volker Wieland, Ph.D.
Professor for Monetary Theory and Policy

Faculty of Economics and Business
Goethe University at Frankfurt

Advanced Macroeconomics II (Part 1)

General Information and Schedule

This course is part of the Ph.D. program in Economics at Goethe University of Frankfurt as well as the Graduiertenkolleg in Finance and Monetary Economics and the Master in Quantitative Economics program. It is open to doctoral students in the Ph.D. Program, members of the Graduiertenkolleg, other doctoral students in the Faculty of Economics and Business and students in the Master in Quantitative Economics Program.

Please note that Advanced Macroeconomics II is split in two parts. Only the first part is taught by Prof. Wieland. The first part takes place in the summer semester from April 16 to May 29, 2007.

Time: Mondays 12:15-13:45 and Tuesdays 10:15-11:45

Location: 120 B

First Lecture: Monday, April 16, 2007

Office Hours: 118 B, Tuesdays 12:00 – 14:00, by appointment only

Teaching Assistants: Tobias Cwik (117C), Maik Wolters (117C), office hours, Thursdays 16:00 – 18:00

Announcements: Website and 'Schaukasten' in front of Money/Macro Department
Contact: 069 798 25290

Email: wieland@wiwi.uni-frankfurt.de

Registration: Please send an email to geldpolitik@wiwi.uni-frankfurt.de to confirm that you plan to take this course and wish regular information. Include your matrikelnummer, status (Ph.D. program, GK, Chair, MSQE, Diplom-student, ...) and full name.

Ph.D. Students

For members of the Ph.D. Program this is a required course. Grading is according to the same system as in U.S. graduate programs in Economics (A+,A,A-,B+,B,B-,C).

Course Requirements

Throughout the course at least 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 (80%) and on the problem sets (20%).

Content and Objective

Macroeconomic analysis is primarily concerned with two themes: (i) developing positive models in order to understand the dynamics of key macroeconomic variables such as output, (un)employment, inflation and interest rates; and (ii) deriving normative prescriptions for macroeconomic policymaking, in particular regarding the proper setting of fiscal and monetary policies. The objective of this course is to develop models that help us understand macroeconomic dynamics and provide a basis for policy prescriptions aiming to stabilize economic fluctuations.

In terms of content, the course is divided in three segments. The introductory segment (2-3 lectures) provides an example of normative policy analysis based on a simple dynamic model of the economy. In the context of this model we will also discuss alternative approaches to expectations formation and the Lucas Critique.

The second segment (6-7 lectures) deals in detail with several building blocks for macroeconomic models with microeconomic foundations. Understanding macroeconomic fluctuations requires models which allow for the interaction of the monetary and the real side of the economy. Thus, we review different mechanisms for introducing price rigidities in macroeconomic models and we proceed to study the new-Keynesian workhorse model with price rigidities, rational expectations and optimizing decision-making by private sector agents.

In the third segment (4-5 lectures) of the course we will study some policy applications using the macroeconomic models from the second segment of the course. Examples concern monetary policy rules, monetary policy design under uncertainty, and the implications of learning by market participants.

Reading

You will receive a detailed handout with lecture notes at the beginning of each lecture. The course will be partly based on selected chapters of several standard macroeconomic textbooks and partly on relevant papers from the literature. In terms of papers there will be a mix of classic, seminal references and recent work that indicates the current research frontier.

Selected chapters of the following books will be required reading for the course:

Walsh, C., *Monetary Theory and Policy*, MIT Press, 2003, 2nd edition.

Ljungqvist, L. and T. Sargent, *Recursive Macroeconomic Theory*, MIT Press, 2000, 2nd edition.

Romer, D., *Advanced Macroeconomics*, McGraw Hill, 2005, 3rd edition.

Woodford, M., *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, 2003.

These books will be set aside for course participants at the WiWi-Library. Further required as well as recommended readings from the recent macroeconomic literature will be announced during the course. A folder with copies will be provided in the secretariat 119B and in the library.

Short Outline

1. Introduction

- Providing Prescriptions for Macroeconomic Policy: An Example
- The Lucas Critique

2. Modeling the Macro-Economy

- Price Rigidities and Monopolistic Competition
- The New-Keynesian Model

3. Policy Applications

- Optimal policy
- Monetary policy rules
- Monetary policy design under uncertainty

Schedule of Lectures in the Summer Semester 2007

Monday, April 16, 12-14

Tuesday, April 17, 10-12

Monday, April 23, 12-14

Tuesday, April 24, 10-12

Monday, April 30, 12-14

Tuesday, May 1, HOLIDAY

Extra session: Thursday, May 3, 10-12 (Exercises)

Monday, May 7, 12-14

Tuesday, May 8, 10-12

Monday, May 14, 12-14

Tuesday, May 15, 10-12

Monday, May 21, 12-14

Tuesday, May 22, 10-12

Monday, May 28, HOLIDAY

Tuesday, May 29, 10-12 (Exercises)