

## COURSE OUTLINE AND READING LIST

This part of the course (one semester, spanning the first half of 521 and the first half of 522) will cover material on macroeconomic models of friction, inertia, non-neutrality of the price level, and price level determination.

### 1. RATIONAL INATTENTION

“Rational Inattention and Monetary Economics”, (Sims, To appear, 2010)

“Discrete actions in information-constrained tracking problems”, (Matějka and Sims, 2009)

“Optimal Sticky Prices under Rational Inattention”, (Maćkowiak and Wiederholt, 2009)

“Rationally Inattentive Seller: Sales and Discrete Pricing”, (Matějka, 2008)

“Rigid Pricing and Rationally Inattentive Consumer”, (Matějka, 2009)

For now, read these two for what they tell us about data, not necessarily the modeling.

“Reference Prices and Nominal Rigidities”, (Eichenbaum, Jaimovich, and Rebelo, 2008)

“Menu Costs, Multi-Product Firms, and Aggregate Fluctuations”, (Midrigan, 2010)

If you want further background on information theory:

*Elements of Information Theory*, (Cover and Thomas, 1991)

*Information Theory, Inference, and Learning Algorithms*, (MacKay, 2003)

### 2. NON-NEUTRALITY OF PRICE LEVEL CHANGES

paper on the Phillips curve and monetary policy, (Sims, 2009)

“Modeling Inflation After the Crisis”, (Stock and Watson, 2010)

Two articles by Sbordone on the empirical New Keynesian Phillips Curve: (Sbordone, 2002), (Sbordone, 2003)

Gertler, Sala, and Trigari on unemployment with search in a DSGE, (Gertler, Sala, and Trigari, 2006), (Gertler and Trigari, 2006)

### 3. FISCAL/MONETARY INTERACTIONS

We'll focus first on the first two of these. The latter two were on the reading list for 504 last spring, so should be familiar.

“Fluctuating Macro Policies and the Fiscal Theory”, (Davig and Leeper, 2006)

“Inflation and the Fiscal Limit”, (Davig, Leeper, and Walker, 2010)

“Limits to Inflation Targeting”, (Sims, 2005)

"A Simple Model...", (Sims, 1994)  
 "Stepping on a Rake", (Sims, 2008b)  
 CB balance sheets and Svensson's foolproof plan, (Jeanne and Svensson, 2007)

#### 4. BUBBLES

"Bubbles, Rational Expectations, and Financial Markets", (Blanchard and Watson, 1982)  
 "Monetary Policy and Asset Price Volatility" (Bernanke and Gertler, 1999)  
 "Speculative investor behavior in a stock market with heterogeneous expectations" (Harrison and Kreps, 1978)  
 "Inflation Expectations, Uncertainty and Monetary Policy" (Sims, 2008a)  
 "Money Illusion and Housing Frenzies" (Brunnermeier and Julliard, 2008)  
 "Heterogeneous Beliefs, Speculation and Trading in Financial Markets" (Scheinkman and Xiong, 2004)  
 "Lending Booms: Latin America and the World" (Gourinchas, Valdes, and Landerretche, 2001)  
 "Bubbles and Crashes" (Abreu and Brunnermeier, 2003)  
 "Bubbly Liquidity" (Farhi and Tirole, 2010)

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