COURSE OUTLINE AND READING LIST

1. COURSE OVERVIEW AND ORGANIZATION

This class covers topics in advanced macroeconomics in monetary economics. The first part of the course focuses on models of stickiness and rational inattention, price determination in general equilibrium, quantitative easing and forward guidance. The second part of the course will consider topics on identification of monetary policy shocks, models of mortgages and refinancing, redistributive effects of monetary policy, and rigidities and markups. The class meets on Monday and Wednesday, 9-10:30am. The course grade will be based on problem sets, presentation, a research proposal and exam.

2. CONTACT DETAILS

Instructors: Chris Sims (sims@princeton.edu) and Arlene Wong (arlenewong@princeton.edu). Office hours for Sims are Thursday 3-5PM, with signup on http://wass.princeton.edu. Office hours for Wong are by appointment.

3. ASSESSMENTS

Assignments: Students can collaborate on the problem sets, and be prepared to present the answers individually in class when it is due.

Presentation: (second part of the course) The last 15 minutes of each class will be devoted to a student presentation of a paper on the reading list on the topic of the week.

Exams: There will be a takehome midterm exam and a separate exam during exam period for the second part of the course.

Proposal: (second part of the course) The second part of the final assignment consists of an extended proposal on a topic related to the course. Students will meet with Professor Wong during session to discuss the idea for approval. The proposal should include the proposed question, related literature, proposed methodology, data (if applicable) and any preliminary results. Students will
present their proposal in class during the first week of December. The written proposal will be due end January.

4. TOPICS AND READINGS FOR THE FIRST PART OF THE COURSE

4.1. Stickiness.

“Some International Evidence on Output-Inflation Tradeoffs”, Lucas (1973)
“Reference Prices and Nominal Rigidities”, (Eichenbaum, Jaimovich, and Rebelo, 2008)
“Menu Costs, Multi-Product Firms, and Aggregate Fluctuations”, (Midrigan, 2010)

4.2. Rational inattention.

“Rational Inattention and Monetary Economics”, (Sims, 2010)
“Discrete actions in information-constrained tracking problems”, (Jung, Kim, Matějka, and Sims, 2015)
“Optimal Sticky Prices under Rational Inattention”, (Maćkowiak and Wiederholt, 2009)
“Rationally Inattentive Seller: Sales and Discrete Pricing”, (Matějka, 2008)

Optimal monetary policy with RI: Wiederholt and Paciello (2014)

If you want further background on information theory:

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

4.3. Econometric History: The rise and fall of US inflation.

Did monetary policy change at all? (Sims and Zha, 2006)
Learning the Phillips curve (Primiceri, 2006)
Learning the natural rate model (Sargent, Williams, and Zha, 2006)
“Stepping on a Rake”, (Sims, 2008b)
“Fluctuating Macro Policies and the Fiscal Theory”, (Davig and Leeper, 2006)
“Monetary/Fiscal Policy Mix and Agents’ Beliefs”. (Bianchi and Ilut, 2013)
Fiscal-Monetary coordination at exit from ZLB: Bianchi and Melosi (2017)
“Generalizing the Taylor Principle”, Leeper and Davig (2007)
Solution methods for linear switching RE models: Farmer, Waggoner, and Zha (2011)

4.4. Policy at the zero lower bound.

Eggertsson and Woodford (2003)
Discussion of this by Bianchi and Ilut at the end of their paper. (Bianchi and Ilut, 2013)


Del Negro, Giannoni, and Schorfheide (2013)
Stock and Watson (2012)
Bernanke, Gertler, and Gilchrist (1999)
Hubrich and Tetlow (2014)
Leeper, Traum, and Walker (2017)
Schularick and Taylor (2012)
Brunnermeier, Palia, Sastry, and Sims (2017)

4.6. 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)

4.7. Bubbles.

“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)

LIST OF COURSE TOPICS (PART 2)

Identifying Monetary Policy Shocks. We will study various approaches to identifying monetary policy shocks. We will discuss the main identification challenges, the assumptions behind the different approaches, sample periods, and datasets available. We will cover SVARs, narrative approaches, high frequency data, as well as uses of micro data that focus on particular episodes.


Monetary Policy, Mortgages and Refinancing. We will discuss the role of mortgage structure, long term debt and refinancing for the transmission of monetary policy. We will cover recent models of mortgages, and empirical approaches to estimate the transmission of monetary policy through the mortgage channel.

Beraja, Fuster, Hurst and Vavra (2017), Regional Heterogeneity and Monetary Policy NBER Working Paper 23270


Redistributive Effects of Monetary Policy and Implications for the Aggregate.


Rigidities and Markups. We will cover standard models with price rigidities and discuss the empirical evidence from aggregate data on intermediate goods shares and micro data on prices.


• Kehoe and Midrigan (2012). Price Are Sticky After All, Federal Reserve Bank of Minneapolis Research Department Staff Paper 413.


Long-Run Trends and Monetary Policy.


REFERENCES


