

Preliminary Course Outline and Reading List*

Items marked “W” are available on the web. If viewed on screen with an up to date viewer, this file will show links to the bibliography at the end and to URL’s where the paper can be downloaded (in cases where they exist).

Topic 1: *Variants of decision theory*

Why distinguishing states and “prizes” is important.

References:

“The Subjective Approach to Ambiguity: A Critical Assessment” (Al-Najjar and Weinstein, 2008)

The Foundations of Statistics (Savage, 1972)

Topic 2: *Rational Inattention*

The MacKay chapters are a lot of material, all useful in principle. You don’t need to master it all in detail, but you do need to understand thoroughly the concepts of coding, channel, mutual information and capacity. You should understand Huffman codes, as an example, and the material on continuously distributed Gaussian channels in Chapter 11.

References:

Information Theory, Inference, and Learning Algorithms, Chapters 1-6, 8-11 (MacKay, 2003).

“Implications of Rational Inattention”, Sims (2003)

“Rational Inattention: A Research Agenda”, <http://sims.princeton.edu/yftp/RIplus/>

“Rationally Inattentive Seller: Sales and Discrete Pricing”, http://www.pacm.princeton.edu/publications/Matejka_F_2008-wp.pdf

Topic 3: *What happened in the 1970’s?*

These papers explain how monetary policy interacted with rising inflation in the 1970’s, and the subsequent fall in the 1980’s. They tell stories that are to some extent in conflict. They may have lessons for the near future.

References:

Primiceri (2006): Policy makers learn about coefficients in a Phillips Curve

Sargent, Williams, and Zha (2006): Policy makers learn about coefficients in an inverted Phillips curve

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Cogley and Sargent (2005): Policy makers learning about models. Asymmetric losses.

Sims (2008): Maybe the focus on monetary policy is too narrow.

Sims and Zha (2006): Monetary policy changed little, did not generate the rise and fall of inflation.

Cochrane (2007): A skeptical discussion of identification of policy rules. A sidebar to the main theme of this topic.

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- COCHRANE, J. H. (2007): "Identification with Taylor Rules: A Critical Review," Discussion paper, Graduate School of Business, University of Chicago, <http://faculty.chicagosb.edu/john.cochrane/research/Papers/>.
- COGLEY, T., AND T. J. SARGENT (2005): "The Conquest of U.S. Inflation: Learning and Robustness to Model Uncertainty," *Review of Economic Dynamics*, 8, 528–563.
- MACKAY, D. J. C. (2003): *Information Theory, Inference, and Learning Algorithms*. Cambridge University Press.
- PRIMICERI, G. (2006): "Why Inflation Rose and Fell: Policymakers' Beliefs and US Postwar Stabilization Policy," *Quarterly Journal of Economics*, 121, 867–901.
- SARGENT, T. J., N. WILLIAMS, AND T. ZHA (2006): "Shocks and Government Beliefs: The Rise and Fall of American Inflation," *American Economic Review*, 96(4), 1193–1224, NBER Working Paper w10764.
- SAVAGE, L. J. (1972): *The Foundations of Statistics*. Dover Publications.
- SIMS, C. A. (2003): "Implications of Rational Inattention," *Journal of Monetary Economics*, 50(3), 665–690.
- (2008): "Stepping on a Rake: The Role of Fiscal Policy in the Inflation of the 1970's," Discussion paper, Princeton University.
- SIMS, C. A., AND T. ZHA (2006): "Were There Regime Switches in US Monetary Policy?," *American Economic Review*, 96(1), 54–81.