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: *The Fiscal Theory of the Price Level*

        Existence and uniqueness with active and passive monetary and fiscal policies; liquidity traps; hyperinflations; central bank balance sheets.

    References:

      "Paper Money" (Sims, 2013)

      "Equilibria Under 'Active' and 'Passive' Monetary And Fiscal Policies" (Leeper, 1991)

      "Price Level Determinacy Without Control of a Monetary Aggregate" (Woodford, 1995)

      "A Simple Model for Study of the Determination of the Price Level and the Interaction of Monetary and Fiscal Policy" (Sims, 1994)

      "Money as Stock: Price Level Determination with No Money Demand" (Cochrane, 1999)

      "Limits to Inflation Targeting" (Sims, 2005)

      "The Perils of Taylor Rules", (Benhabib et al., 2001)

      "The Zero Interest-Rate Bound and Optimal Monetary Policy" (Eggertsson and Woodford, 2003)

      "When does a central bank balance sheet require fiscal support?" (Del Negro and Sims, 2015)

Topic 2: *Transversality and Stochastic Lagrange Multipliers*

        Pitfalls of conventional TVC's. Sufficiency for concave problems. The linear-quadratic permanent income model revisited. Setting up a DSGE for solution.

    References:

      Notes: "Random Lagrange Multipliers and Transversality" (Sims, 2000) W

      Notes: "Stochastic Lagrange Multipliers for Problems with Lagged Expectations" W

Topic 3: *Linearizing and SolvingRE DSGE Models*

        Getting the computer to do the hard work for bigger models. Continuous and discrete time. Avoiding the need to discover artificial

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predetermined variables in DSGE's. Perils of root counting. Pitfalls of linearization.

References:

"Solving Linear Rational Expectations Models" (Sims, 2001b) W

"Spurious Welfare Reversals in International Business Cycle Models" (Kim and Kim, 2003)W

Notes on pitfalls of linearization.

Woodford (2003, Sections 6.1-2)

Topic 4: *FTPL in Keynesian Models*

Can active fiscal, passive money match time series facts? Identification problems for models with monetary and fiscal policy rules. Limited inflationary finance.

References:

"Stepping on a Rake" (Sims, 2011)

"Determinacy and Identification with Taylor Rules" (Cochrane, 2011)

"A Fiscal Theory of Monetary Policy with Partially-Repaid Long-Term Debt" (Cochrane, 2020)

"Recovery of 1933" Leeper et al. (2017)

Topic 5: *Intertemporal Aspects of Fiscal Policy*

Identification problems in estimating effects; tax smoothing; optimal capital taxation; optimal inflation taxes; the burden of public debt; natural resource exhaustion.

References:

"Optimal Fiscal Policy in a Business Cycle Model" (Chari et al., 1994)

"Optimal Fiscal and Monetary Policy in an Economy without Capital" (Lucas and Stokey, 1983)

"Federal Deficit Policy and the Effects of Public Debt Shocks" (Barro, 1980)

"Fiscal Consequences for Mexico of Adopting the Dollar" (Sims, 2001a)

"Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives" (Chamley, 1986)

"Optimal Taxation Without State-Contingent Debt" (Marcet et al., 2000)

"National Debt in a Neoclassical Growth Model" (Diamond, 1965)

"Debt, Deficits, and Finite Horizons" (Blanchard, 1985)

"Optimal Fiscal and Monetary Policy with Distorting Taxes] (Sims, 2019)

"On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation"(Łukasz Rachel and Summers, 2019)

"Public Debt and Low Interest Rates" (Blanchard, 2019)

Topic 6: *International Risk Sharing and Transmission of Business Cycles*

References:
"Domestic Savings and International Capital Flows" (Feldstein and Horioka, 1991)

"Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?" (Cole and Obstfeld, 1991)

"Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Comovements" (Stockman and Tesar, 1995)

Topic 7: *Exchange Rates and Exchange Rate Crises*
First generation; second generation; fiscal.
References:
Rogoff and Obstfeld (1996, Sections 8.1-8.4)

"Fiscal Foundations of Price Stability in Open Economies", (Sims, 1997)

"On the Fundamentals of Self-Fulfilling Speculative Attacks", (Burnside et al., 2000)

Topic 8: *Policy Games and Learning*

References:
"Rules rather than discretion: The inconsistency of optimal plans" (Kydland and Prescott, 1977)

"A Positive Theory of Monetary Policy in a Natural Rate Model" (Barro and Gordon, 1983)

The Conquest of American Inflation (Sargent, 1999)

"Projecting Policy Effects with Statistical Models" (Sims, 1988)

"Laboratory Experiments with an Expectational Phillips Curve" (Arifovic and Sargent, 2003)

Topic 9: *Using Models to Formulate Policy*
Comparing quantitative policy models to academic models; the role of quantitative models in the policy process — rules, commitment, targets; does the Lucas critique imply there is no such thing as real time policy analysis?
References:
"Macroeconomic Modeling for Monetary Policy Evaluation", (Galí and Gertler, 2007)

"Policy Rules for Inflation Targeting" (Rudebusch and Svensson, 1999)

"Modest Policy Interventions" (Leeper and Zha, 2001)

"Autoregressions, Expectations and Advice" (Sargent, 1984)

"A Rational Expectations Framework for Short Run Policy Analysis" (Sims, 1987)

Topic 10: *Possible topic if we have time: Models of money illusion; rational inattention*

References:
"Implications of Rational Inattention", (Sims, 2003)

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