Course Syllabus

Monetary Theory and Policy

Instructor: Ming-Jen Chang, Fall 2024
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Lecture: Monday 9:10-12:00 & 13:00-16:00, (D202, Humanities Building I)

Objectives: We will begin with a review of some basic models following the presentation in Carl E. Walsh. This course will focus on models of money demand, the construction of models to explain the empirical evidence on the effects of monetary policy, and issues in the conduct of the latter. The class will be taught in *English*.

Prerequisites: The course does need to use calculus and lots of linear algebra.

Text: ***Monetary Theory and Policy***, Carl E. Walsh, the 4th Edition, 2017, Cambridge, MT: MIT Press (ISBN 9780 262 03581 1).

Outline of Topics:
Topic 1: money-in-the-utility model (Ch. 2)
Topic 2: money and transactions (Ch. 3)
Topic 3: money and public finance (Ch. 4)
Topic 4: money: nominal price and wage rigidities (Ch. 6)
Topic 5: new Keynesian monetary economics (Ch. 8)
Topic 6: money and the open economy (Ch. 9)
Topic 7: financial markets and monetary policy (Ch. 10)
Topic 8: monetary policy operating procedures (Ch. 11)

Evaluation: The course grade will be based on presentations, and a term paper.

Calendar of Lectures

Sep 9	topic 1
Sep 16	x
Sep 23	topic 1
Sep 30	x
Oct 7	topic 2
Oct 14	x
Oct 21	topic 3
Oct 28	x
Nov 4	topic 3
Nov 11	topic 4
Nov 18	x
Nov 25	x
Dec 2	x
Dec 9	topic 5
Dec16	x
Dec 23	topic 6
Dec 30	**Final Term**
Jan 6	Alternative Curriculum

Reading List

[1] Abraham, A. and S. Laczo (2018) "Efficient Risk Sharing with Limited Commitment and Storage," *Review of Economic Studies* 85, 1389–1424.

[2] Becard, Y. and D. Gauthier (2022) "Collateral shocks," *American Economic Journal: Macroeconomics* 14, 83–103.

[3] Bianchi, J. (2011) "Overborrowing and Systemic Externalities in the Business Cycle," *American Economic Review* 101, 3400–3426.

[4] Celentani, M., J.I. Conde-Ruiz and K. Desmet (2004) "Endogenous policy leads to inefficient risk sharing," *Review of Economic Dynamics* 7, 758–787.

[5] Chatterjee, P., D. Gunawan, and R. Kohn (2024) "The interaction between credit constraints and Uncertainty shocks," *Journal of Money, Credit and Banking*, forthcoming.

[6] Chen, B.-L. and S.-Y. Liao (2018) "Durable Goods, Investment Shocks, and the Comovement Problem," *Journal of Money, Credit and Banking* 50, 377–406.

[7] Cho, D., K.H. Kim and S.J. Kim (2023) "Inefficient international risk-sharing," *Journal of Monetary Economics* 138, 31–49.

[8] Devereux, M.B and V.V. Hnatkovska (2020) "Borders and Nominal Exchange Rates in Risk-Sharing," *Journal of the European Economic Association* 18, 1238–1283.

[9] Drechsel, T. (2023) "Earnings-based borrowing constraints and macroeconomic fluctuations," *American Economic Journal: Macroeconomics* 15, 1–14.

[10] Drechsel, T. and S. Kim (2024) "Macroprudential policy with earnings-based borrowing constraints," *Journal of Monetary Economics*, forthcoming.

[11] Enders, Z. and D. Vespermann (2024) "Cross-country unemployment insurance, transfers, and trade-offs in international risk sharing," *Journal of Monetary Economics*, forthcoming.

[12] Everaert, G. and L. Pozzi (2022) "Encompassing measures of international consumption risk sharing and their link with trade and financial globalization," *Journal of Applied Econometrics* 37, 433–449.

[13] Gatt, W. (2024) "Loan-to-value limits as a macroprudential policy tool: Developments in theory and practice," *Journal of Economic Surveys* 38, 232–267.

[14] Groll, D. and T. Monacelli (2020) "The inherent benefit of monetary unions," *Journal of Monetary Economics* 111, 63–79.

[15] Komatsu, M. (2023) "The effect of monetary policy on consumption inequality: An analysis of transmission channels through TANK models," *Journal of Money, Credit and Banking* 55, 1245–1270.

[16] Lee, H. (2024) "A model of gross capital flows: Risk sharing and financial frictions," *International Economic Review*, forthcoming.

[17] Lee, J.W. (2014) "Monetary policy with heterogeneous households and imperfect risk-sharing," *Review of Economic Dynamics* 17, 509–522.

[18] Rouillard, J.-F. (2023) "Credit crunch and downward nominal wage rigidities," *Journal of Money, Credit and Banking* 55, 889–941.

[19] Rubio, M. and F. Unsal (2017) "Macroprudential Policy, Incomplete Information and Inequality: The case of Low-Income and Developing Countries," IMF Working Paper WP/16/59.

[20] Schmitt-Grohe, S. and M. Uribe (2017) "Is Optimal Capital Control Policy Countercyclical in Open Economy Models with Collateral Constraints?," IMF Economic Review 65, 498–527.

[21] Van der Ghote, A. (2021) "Interactions and Coordination between Monetary and Macroprudential Policies," American Economic Journal: Macroeconomics 13, 1–34.

[22] Yu, W. (2024) "Consumption, exchange rate, and external adjustment during a crisis," Journal of International Economics 151, 103964.