New Keynesian Macroeconomics – Theory and Empirics

Summer Term 2013

Kai Carstensen and Timo Wollmershäuser

Objectives
The main goal of the course is to introduce into New Keynesian Macroeconomics (NKM) both from an empirical and a theoretical perspective in order to explain business cycles. A particular emphasis will be put on inflation and monetary policy: How do we measure monetary policy shocks? What are the empirical effects of monetary policy? Can we explain these effects theoretically? How should optimal monetary policy look like?

Time
First half of the semester
Lecture (Kai Carstensen)
   Wednesday 16-18 (Ludwigstr. 28 Rear Building, Ground Floor, Room 026)
   Thursday 12-14 (Ludwigstr. 28 Rear Building, Ground Floor, Room 024)
   First lecture: April 18, 2013

Tutorial (Nikolay Hristov)
   Tuesday 8-10 (Ludwigstr. 28 Rear Building, Ground Floor, Room 026)
   First tutorial: April 23, 2013

Computer Tutorial (Peter Zorn) – not mandatory but recommended
   Monday 16-18 (Ludwigstr. 28, 207/iuk)
   First computer tutorial: April 22, 2013

Second half of the semester (starting around 5. to 12.June)
Lecture (Timo Wollmershäuser)
   Tuesday 8-10 (Ludwigstr. 28 Rear Building, Ground Floor, Room 026)
   Wednesday 16-18 (Ludwigstr. 28 Rear Building, Ground Floor, Room 026)

Tutorial (Nikolay Hristov)
   Thursday 12-14 (Ludwigstr. 28 Rear Building, Ground Floor, Room 024)

Computer Tutorial (Peter Zorn) – not mandatory but recommended
Monday 16-18 (Ludwigstr. 28, 207/iumk)

**Prerequisites**

Advanced Macroeconomics (Real Business Cycle models, dynamic modeling)

Time-series Econometrics
Outline

1. **Stylized Macroeconomic Facts of the European and US Business Cycle**
   a. The Hodrick-Prescott filter
   b. Some stylized facts

Required Readings:

Suggested Readings:

2. **Stylized Microeconomic Facts of the Price Setting Mechanism**
   a. Evidence based on micro price data (Klenow/Malin, 2010)
   b. Evidence based on firm surveys (Fabiani et al., 2006)

Required Readings:

Suggested Readings:
3. **VAR Models**

   a. The identification problem in macroeconomics

   b. The VAR model

   c. Identification strategies for VAR models: Cholesky decomposition (Christiano/Eichenbaum/Evans), sign restrictions (Uhlig, 2005), short-run restrictions (Bernanke/Mihov, 1998), long-run restrictions (Blanchard/Quah, 1989), long-run restrictions with cointegration (King/Plosser/Stock/Watson, 1991)


   e. The MTM in the euro area: Peersman/Smets (2003), Cecioni/Neri (2010)

**Required Readings:**


**Suggested Readings:**


4. **The New Keynesian Baseline Model**

**Required Readings:**

5. **Monetary Policy Design in the New Keynesian Model**
   a. Sources of suboptimality
   b. Optimal monetary policy I
   c. Simple policy rules I
   d. The welfare function
   e. Monetary policy tradeoffs
   f. Optimal monetary policy II (discretion versus commitment)
   g. Simple policy rules II
   h. Monetary policy under uncertainty

Required Readings:

Suggested Readings:

6. **Extensions of the Baseline New Keynesian Model**
If time allows.