

Plan for today:

1. Welcome
2. Various “logistics” of the course
3. Overview of course contents:
 - a) What are the main themes?
 - b) Which subjects are covered?
4. Plan for next lecture

Welcome

- Language?

- This is an “English” course....any non-Danish students here?

Welcome to all!

- Who am I? Why am I here?

– (...check out: www.econ.ku.dk/personal/henrikj/)

Various “logistics” of the course

- Curriculum:
 - Carl Walsh (2003): *Monetary Theory and Policy, Second edition* (The MIT Press) is main text. Buy it...
 - A number of recent journal articles and working papers:
 - * Most available electronically through the Institute Library’s web-site: www.econ.ku.dk/library/ (go for “Journals”)
 - * Some available electronically through the course web-site
 - * Note: Do *not* spend time/energy/money downloading everything on the reading list now (as some may be taken off the reading list during the semester)
 - Note: In several instances the book chapters and articles will contain sections that are not *required* reading, but only *recommended*. This is made clarified during the course and in the finalized — and exam-relevant — curriculum (available at the end of the semester)
- Exam: Four hours, closed-book written exam (tentative date June 18)

- Course web page:
www.econ.ku.dk/personal/henrikj/monec2004/

- *Imperative* to visit on a regular basis! It will feature (among other things):

– “Breaking News”: Where are we headed in the next lectures? What other important stuff has happened/is going to happen?

– Lots of downloadable stuff:

- * Lecture slides
- * Recapitulation info on past lectures (what did I put emphasis on?)
- * Various expository notes and exam-style exercises
- * (note that the book has exercises)
- * “F.A.Q.” section: Send me questions by e-mail; and they will (along with an answer) be posted there. If **you** are in doubt about something, chances are high that others are too. Everything is **anonymous**, so only I am sticking my neck out....
- * General links of relevance

- Please comment on the web-page as we move along!

- Check out last year’s course webpage to see lots of examples of the above:

www.econ.ku.dk/personal/henrikj/monec/

- Teaching mode:
 - “Slide based”
 - Slides are available at the start of the lectures (so you can take notes on them)
 - Slides are subsequently posted on web-page
 - Slides will sometimes include computations, which are not covered as such in lectures
 - * => You should always get the slides!
- **For variation:**
 - * A few lectures could — upon demand — be spent on doing exercises (either by YOU or me)
- E-mail list:
 - To get last-minute information on, e.g., cancellations, sign up on the e-mail list!
 - => Send me your e-mail address with “Macro Aspects” in the subject line
 - (if you just write “hi,” or leave the subject line empty, I delete the mail automatically!)
- CANCELLATION INFORMATION: LECTURES ARE **CANCELLED ON MONDAY, MAY 17**

Overview of course contents

- a) **What are the main themes?**
- How does monetary policy affect macroeconomic aggregates?
 - I.e., how can the central bank affect, e.g., output, employment, consumption and inflation?
 - What characterizes “good” monetary policymaking?
 - I.e., what should the central bank aim to accomplish?
 - I.e., which are the appropriate monetary policy regimes?
 - Questions are addressed within a variety of modern (and durable classical) theoretical models
 - Although mainly a theoretical course, empirical relevance of theories is not neglected!
 - Theories are **mathematically founded**
 - Intuition will be **very** important, but you **must** master macroeconomic theory at a level comparable to, e.g., David Romer’s “Advanced Macroeconomics” (basic intertemporal optimization, analysis of dynamic systems, rational expectations)
 - I.e., you should have taken Copenhagen 3. year macroeconomics

b) Which subjects are covered?

(for literature, see the preliminary plan)

Subject 1: Introduction and “Does monetary policy matter for output?” (1 week)

- What are the “stylized facts” on the relationship between monetary policy and macroeconomic aggregates in the short and long run?
- What are the basic empirical problems in assessing this question?
- Can empirical evidence (on, e.g., the effect of money on output) be readily used for policy guidance?

Subject 2: Money’s role in flexible-price general equilibrium models (3 weeks)

- What are the effects of money in micro-founded (private-sector optimal behavior) models with flexible prices?
- Do the effects match the (in particular, *long run*) stylized facts?
- “Benchmark” dynamic models and solution techniques (optimization, linearization around steady state; simulations)
- Basically “Ransey models” with money introduced
- Examples:
 - Models with money in the utility function
 - Models with “cash-in-advance” constraints
 - Models where money plays an important role for public finance (inflation as a tax)

Subject 3: Money's role with incomplete nominal adjustment (1 week)

- What if prices and wages do not adjust instantaneously?
 - E.g., due to informational problems (Lucas' famous "misperceptions" model)
 - E.g., due to contractually fixed prices or wages
- Are the effects of monetary policy then more prominent and in accordance with the stylized facts (in particular, in the *short and medium run*)?

Subject 4: Rules versus discretion: Credibility problems (I) (1 week)

- Strategic issues in monetary policymaking
- Should monetary policy follow a fixed rule, or follow a "discretionary" pattern (i.e., continuously reconsider policy in light of changes in the state of the economy)?
- Which type of policymaking is "credible"?
- How can potential credibility problems — e.g., leading to excessive inflation — be overcome?
- Is, e.g., a politically independent central bank desirable?
- I.e., focus on how monetary *institutional framework* (legislation) matters

Subject 5: Operating Procedures, Interest Rates and Monetary Policy (2 weeks)

- How is monetary policy conducted in the real world?
 - I.e., how is policy implemented? What are the *operating procedures*?
 - What can/does the central bank control; what can/does it not control?
- What are central banks using as the monetary policy instrument?
 - Interest rates or the money supply?
- Example of interest rate policy rules in small simulation model

Subject 6: Monetary policy conduct in “New Keynesian” settings: Credibility problems (II) (2 weeks)

- Newest branch of models for monetary policy analysis
- Dynamic, micro-founded models with sticky prices
- Suitable for characterization of **optimal** monetary policy
- Credibility problems in stabilization policy: Can they be alleviated? And through which monetary policy strategy(ies)?
- The issue of proper *institutional framework* revisited

**Subject 7: Open-economy Aspects and Monetary Policy
Coordination (2 weeks)**

- Monetary policymaking in open economies: the exchange rate channel
- Multi-country models with macroeconomic interdependencies
- What are the “spill-overs” of unilateral policymaking?
- Is internationally coordinated monetary policy desirable, and what characterizes it?

Subject 8: Inflation Targeting (2 weeks)

- Topical issue as several countries have adopted this policy regime
- What is inflation targeting?
- What are the implications for monetary policymaking?
- How can inflation targeting be modelled?

Subject 9: Transparency of Monetary Policymaking (1 week)

- Another topical issue
- Should central banks be open/transparent about their policy intentions?
- Or should central banks just “do their stuff” without explanations?
- Are their flexibility hampered by transparency?
- Can “secrecy” in monetary policymaking *ever* be desirable?

Plan for next lecture

1. What are the “stylized facts” about money and economic aggregates?

2. Empirical problems/issues

Literature: Walsh (2003, Chapter 1)