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Universität Bern
Volkswirtschaftliches Institut
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Monetary Theory and Policy II

(Course # 3064, 4 credits, 6 ECTS)

Class: Monday 14-16, Wednesday : 10-11, Exercises: Wednesday 14-15
Office hours: Wednesday: 11.30-12.30 or by appointment or by email

Course objective: To offer a systematic theoretical and empirical analysis of the macroeconomic effects of money. The whole course is dedicated to the following question: Does money matter, why, how, for what and over which time horizon.

Course structure: Lectures by Prof. Dellas, exercises (1 hour per week) by Mr. Waelti. Modest level of technical difficulty.

Evaluation: a) **Final exam**. 80% of the grade will be based on a final exam (90 minutes) that will consist of essay questions. It may be taken in either English or German. Sample exams and review questions will be handed out regularly throughout the course in order to help students prepare for the exam. **Computer assignments**: 20% of the grade will be determined by six simple computer homeworks.

b) special programme (Fachprogramm): Monetary Economics

Prerequisites: Macroeconomics I

Readings: Class notes, book chapters and articles. For each subject there will be two key references: One at the elementary level and another at a more technical level. The former will be from Abel and Bernanke, Macroeconomics (but most other similar textbook such as Mishkin, Money and Banking and Financial Markets, or Barro and Grilli, European Macroeconomics, will do). The latter will be from McCallum, Monetary Economics. A limited set of *additional* supplementary readings is included. The starred (*) items are the most important. All readings –including the books- are available at the library. Non-copy righted material as well as class notes, homework assignments and review questions can also be found at my WWW site.

I. MONEY AND THE MACROECONOMY

A. The long term effects of money

1. Money, inflation, interest rates, exchange rates
2. Money, output, economic growth
3. Welfare analysis: The cost of inflation, the optimal quantity of money

McCallum, ch. 6, 7.

Abel and Bernanke, ch. 7.5, ch. 13.3 pp. 469-472.

(Mishkin, ch. 28, p. 681-690, ch. 6, p.132-138).

(Barro and Grilli, ch. 8).

Akerlof, G., Dickens, W., Perry, G., 1996, The macroeconomics of low inflation, Brookings Papers on Economic Activity, pp. 1-59

Chari, V., L. Jones and R. Manuelli, 1995, The growth effects of monetary policy, Quarterly Review (Fed. Res. Bank of Minneapolis), Fall.
Fischer, S. 1993, The role of macroeconomic factors in growth, Journal of Monetary Economics.

B. The short term effects of money

The theory

a) IS-LM

McCallum, ch. 5.

Abel and Bernanke, ch. 10

(Mishkin, ch. 24, 25, 26)

b) Rational expectations

McCallum, ch. 8, 9.1-9.6.

Abel and Bernanke, ch. 11, p. 378-386, ch. 13.1.

(Mishkin, ch. 29, p. 709-716, ch. 30)

c) New classical (Real business cycles)

McCallum, ch. 9.7

Abel and Bernanke, ch. 11, p. 354-370.

McCallum, B. 1988, Real business cycle models, in R. Barro: Handbook of Modern Business Cycle Theory.

d) New Keynesian

Abel and Bernanke, ch. 12.1-12.2

Cooper, R., 1998, Business cycles: Theory, evidence and policy implications, Scandinavian Journal of Economics, 100, 213-246.

e) New theories of the transmission of monetary policy

Symposium on monetary policy transmission, Journal of Economic Perspectives, Fall 1995

* Introduction to the symposium (by Mishkin)

The empirical evidence

1. The identification of monetary policy

2. The effects of monetary policy on macroeconomic activity

Ahmed, S. 1993, Does money affect output, Business Review, FRB Philadelphia, July-Aug.

*Mishkin, ch. 27.

*Walsh, C., 1998, Monetary Theory and Policy, ch. 1

II.MACROECONOMIC POLICY DEBATE (RULES VS DISCRETION)

a) The old debate (active vs passive)

McCallum, ch. 11.

Abel and Bernanke, ch 15.3.

(Mishkin, ch. 28, p. 701-704)

b) The new debate (credibility, rules vs discretion, central bank independence)

McCallum, ch. 12

Abel and Bernanke, ch 15.3

(Barro and Grilli, ch. 22)

III. SPECIAL TOPICS

A. Central Bank Operating Procedures

McCallum, ch. 16.

Bernanke, B. and F. Mishkin, 1996, Inflation targeting, *Journal of Economic Perspectives*

B. European Monetary Integration

Tavlas, G, 1993, The 'New' theory of optimum currency areas, *World-Economy* 16(6), November.

C. Money and Finance

1. Monetary policy and the term structure
2. The term structure as a predictor of economic activity and inflation
3. Inflation and financial asset prices
4. Inflation and financial structure
5. Monetary policy and financial crises

Class notes