# Monetary Policy and Bank Regulation: The Economics of Central Banks.

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lecture notes on www.huwdixon.org.

Wednesday 12-14.00 hrs.
D21.

## Outline.

This course will cover aspects of the microeconomics and macroeconomics of Central Banking. The main focus of the macroeconomic part will be the new Keynesian (or new neoclassical synthesis) models of monetary policy with nominal rigidities. For this the main text is Carl Walsh's *Monetary Theory and Policy*. We will analyse the issues of the "Science of Monetary Policy", optimal policy design and Central Bank independence. I will also explore issues relating to recent state of the art modelling issues as well as the microeconomic data. The microeconomics of Banking will be based on Freixas and Rochet's *The Microeconomics of Banking*: we will explore the microeconomic foundations of Banking (and financial intermediation), with the regulatory issues facing Central Banks.

**1. Money in DGE Models: Flexible Wages and Prices (The MIU model).**

Chapter 2-3. Carl Walsh *Monetary Theory and Policy (2nd edition)*, MIT Press 2003.

**2 Models of Pricing and Wage setting**.

Price/Wage Staggering and Persistence: a Unifying Framework, 2003, *The Journal of Economic Surveys*, 17 (4), pp. 511-540.

Huw Dixon and Engin Kara (2006): "How to Compare Taylor and Calvo Contracts: A Comment on Michael Kiley", *Journal of Money, Credit and Banking*, 38, 1119-1126.

**3. The New Keynesian Phillips curve etc.**

Carl Walsh, Chapter 5.

Chapter 3 Michael Woodford *Money Interest and Prices.*

Roberts, John M, 1995. "**New Keynesian Economics and the Phillips Curve**," Journal of Money, Credit and Banking, Ohio State University Press, vol. 27(4), pages 975-84, November.

Goodfriend M and King R.G. (1997), The New Neoclassical Synthesis and the role of monetary policy, NBER Macroeconomics Annual 1997, 231-283.

**4. Microeconomic evidence and price-setting models.**

Huw Dixon (2009): A unified framework for understanding and comparing dynamic wage and price setting models, Banque de France working paper 257. http://www.banque-france.fr/gb/publications/ner/1-257.htm.

Mark Bils and Pete Klenow (2004), Some evidence on the importance of sticky prices, *Journal of Political Economy*, 112, 947-985.

Baudry L, LeBihan H, Sevestre P and Tarrieu S (2007). What do thirteen million price records have to say about consumer price rigidity? *Oxford Bulletin of Economic Statistics*, 69, 139-183.

Nakamura E and Steinsson J, (2008). "Five Facts about Prices: A Reevaluation of Menu Cost Models," The Quarterly Journal of Economics, MIT Press, vol. 123(4), pages 1415-1464, November.

**5. Real Persistence.**

Chari V, Kehoe P.J. and E.R.McGrattan (2000), Sticky Price Models of the Business Cycle: Can the Contract Multiplier solve the persistence problem", Econometrica, 68, 1151-1179.

Guido Ascari (2000), Optimising agents, staggered wages and the persistence in the real effects of monetary shocks, *Economic Journal* 110, 664-686.

Huw Dixon and Engin Kara (2005): "Persistence and nominal inertia in a generalized Taylor economy: how longer contracts dominate shorter contracts", *European Central Bank Working* Paper 489, May 2005.

Coenen G, Levin AT, Christoffel K (2007), Identifying the influences of nominal and real rigidities in aggregate price-setting behavior, Journal of Monetary Economics, 54, 2439-2466

**6. Inflation Persistence.**

Fuhrer, Jeff & Moore, George, 1995. "**Inflation Persistence**," The Quarterly Journal of Economics, MIT Press, vol. 110(1), pages 127-59, February.

Huw Dixon and Engin Kara (2006): Understanding inflation persistence: a comparison of different models, ECB working paper 672.
Published as:
Huw Dixon and Engin Kara (2010): Can We Explain Inflation Persistence in a Way that Is Consistent with the Microevidence on Nominal Rigidity? *Journal of Money credit and banking*, 42, 151-170.

Greg Mankiw and Ricardo Reis (2002), Sticky Information versus Sticky Prices: A Proposal to replace the new keynesian phillips curve, *Quarterly Journal of Economics*, 117, 1295-1328.

Christiano L, Eichenbaum M and Evans C (1995), Nominal Rigidity and the dynamics effects of a shock to monetary policy, *Journal of Political Economy*, 113, 1-45.

**7: The Microeconomics of Banks: Liquidity, Moral Hazard and so on.**

Freixas and Rochet's *The Microeconomics of Banking*, Chapter 2-3.

(Steven Cecchetti: *Money, banking, and financial markets*, McGraw Hill. Chapter 11 gives an "undergraduate" overview).

**8: Central Banks as Regulators.**

F&R ch 7.

Cecchetti chapters 15-17.

**9. The Science of Monetary Policy.**

Clarida R, Gali J, Gertler M (1999). The Science of Monetary Policy, *Journal of Economic Literature*, 37, 1661-1707.

Carl Walsh, chapter 11.

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