Macro Policy: Fiscal, Monetary, and Macrofinancial Linkages

Syllabus

Spring 2023

Description & Requirements

This is a discussion and practical class. You **will not** be evaluated binary: 'right' or 'wrong', but by the novelty of your arguments, the way to discuss, and how professional (economist) you answer.

Yet you will have to be sufficiently familiar with the core toolkit. The course material covers several specialization areas within Advanced Macroeconomics. This course will place you at the frontier of macroeconomic policy and macrofinancial linkages. This course is focused on deepening into monetary and financial models, not only on the usage of the toolkit but the proper econometric techniques to analyze and discuss. Thus, for the first time you will be trained to actually implement economics and econometric tools to answer real world questions in monetary policy and macro-finance. This course will help you differentiate your academic background and training from that curriculum of Business Administration or Financial Management. Thus, you will have more skills that will make you a better candidate whether you want to go the Job Market or Graduate school.

You will experience a better achievement if you have the main supportive background:
1. Dynamic Systems and Optimization Course
2. Econometrics of Time Series and GMM
3. Advanced Macroeconomics Course

The skills you should expect to be evaluated are:
1. Dominance of Macroeconomic policy concepts and issues
2. Professional exposition to convey concepts and ideas
3. Professional writing of policy notes
4. Sufficient dominance of how to choose the best tool to solve a problem
5. Logical bridging between concepts, toolkits, and policy discussions

How to Work it Out Through the Semester

1. Read the lectures corresponding to each class
2. Prepare the presentations with good effort - ask when you do not understand something
3. Consult with me questions during Office Hours hours- send me an email to schedule and cc the TA.

Class Materials, Rules, Exams, Grades, and Performance

Class Materials All class material (i.e lecture notes, slides, problem sets) will be shared by the teacher assistant and uploaded to the course website:

Grades. Grades are easy: You are required to discuss, present, and read the lectures. Also Problem sets will be central part of your grades.

- 15% Problem Sets. Problem sets have two sections, one that is hard, but will be done in teams. The second one is an individual task that will show to me if you are getting right the toolkit usage and its intuition
- 25% Exposition (will be graded from 0-100). Everyone will at least present one lecture, the calendar will be prepared by the TA
- 30% Mid-term Grade: of which 20% will be 3-Pager discussion of a policy issue and 10% the final grade obtained in the Time Series math camp
- 30% Final examination grade, divided into 20% a 5-pager project and 10% the GMM Math camp final grade.

Rules. Official hours are VC from 4:00 pm-7:00 pm Fridays. However, occasionally we will adjust days and hours along the semester with the consensus of all.

- You are required to attend at least 80% of classes. Randomly, I will choose when to check your attendance.
- I travel frequently so we will have to adjust days and hours. This will be done at least 1 or 2 weeks in advanced and with the consensus of all.

Office hours

For Macropolicy Topics: Send me an email with cc to the TA and we can agree an appointment.
email: glagard@bu.edu
For Math Camp Topics: Send an email to gmarinmunoz@iadb.org for any question, schedule an appointment, and homework deliveries.

Part I: Time Series Math Camp Structural VAR estimations and LP Multipliers.

Part II: Fiscal Multipliers

1. SVAR Identification *(Blanchard y Perotti (2002), Restrepo (2020), Estevão and Samaké (2013))*
2. SVAR Identification *(Ramey-Shapiro (1998), Ramey-Zubairy (2011), Auerbach-Goridichenko (2012))*
3. Local Projections as another method for estimating multipliers *(Auerbach and Gorodnichenko (2013a),Auerbach and Gorodnichenko (2013b), Levrero et al. (2019), Berge et al. (2021))*

Part III: Math General equilibrium and GMM Estimation Math Camp.

Part IV: Neo-Keynesian Monetary Policy

1. Key Elements of the Neo-keynesian Classical Model *(Gali, J. (2008) Monetary Policy, Inflation, and the Business Cycle, Ch 3)*
2. Monetary Policy Design in the New Keynesian Model *(Gali, J. (2008) Monetary Policy, Inflation, and the Business Cycle, Ch 4)*
3. Some Monetary Policy Problems: Commitment and the Monetary Instrument Selection *((i)Clarida et al. (1999) The Science of Monetary Policy: A New Keynesian Perspective. (ii) Gali, J. (2008) Monetary Policy, Inflation, and the Business Cycle, Ch 3)*

Part V: (Time Permitting) Macrofinancial Linkages

1. Financial Imperfections and the General Equilibrium: The Financial Accelerator *(Bernanke Gertler Gilchrist, 1999)*
2. The Financial accelerator and Monetary Policy *(Bernanke et al (1999) and Cordoba and Ripoll(2004), Kiyotaki and Moore (1997))*
3. DSGE and Bayesian Estimation. *(Frank Smets, Rafael Wouters, Bayesian New Neoclassical Synthesis (Nns) Models: Modern Tools for Central Banks, Journal of the European Economic Association, Volume 3, Issue 2-3, 1 May 2005, Pages 422–433.)*
4. DSGE and Bayesian Estimation Applied. *(Smets, Frank, and Rafael Wouters. 2007. "Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach." American Economic Review, 97 (3): 586-606.)*
5. Overborrowing, Financial Crises and" Macro-prudential" Policy. *(Bianchi, J., & Mendoza, E. G. (2011). Overborrowing, Financial Crises and" Macro-prudential" Policy.)*
6. Macroeconomic effects of financial shocks. *(Jermann, U., & Quadrini, V. (2012). Macroeconomic effects of financial shocks. American Economic Review, 102(1), 238-71.)*

7. Uncertainty, financial frictions, and investment dynamics. *(Gilchrist, S., Sim, J. W., & Zakrajšek, E. (2014). Uncertainty, financial frictions, and investment dynamics (No. w20038). National Bureau of Economic Research.)*

8. Misallocation and Financial Frictions: Some Direct Evidence from the Dispersion in Borrowing Costs. *(Gilchrist, S., Sim, J. W., & Zakrajšek, E. (2013). Misallocation and financial market frictions: Some direct evidence from the dispersion in borrowing costs. Review of Economic Dynamics, 16(1), 159-176.)*