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Monetary Policy, Inflation, and the Business Cycle Monetary Policy, Inflation, and the Business Cycle The Monetary Policy Strategy of the ECB Reconsidered International Dimensions of Monetary Policy Unemployment Fluctuations and Stabilization Policies Unemployment Fluctuations and Stabilization Policies Monetary Policy, Inflation, and the Business Cycle Optimal Monetary Policy in Closed Versus Open Economies The Science of Monetary Policy New Perspectives on Monetary Policy, Inflation and the Business Cycle NBER Macroeconomics Annual 2019 The State of New Keynesian Economics Interest and Prices The Science and Practice of Monetary Policy Today Inflation Dynamics Technology Shocks and Monetary Policy Monetary Policy and Exchange Rate Volatility in a Small Open Economy Macroeconomic Modeling for Monetary Policy Evaluation Macroeconomic Fluctuations and Policies NBER Macroeconomics Annual 2004 Targeting Inflation in an Economy with Staggered Price Setting Monetary policy and unemployment On the Empirical (Ir)Relevance of the Zero Lower Bound Constraint A Simple Framework for International Monetary Policy Analysis Labor Markets and Monetary Policy Optimal Monetary Policy with R* Monetary Policy Rules in Practice Defining a Macroeconomic Framework for the Euro Area Monetary Policy Rules and Macroeconomic Stability European Inflation Dynamics Sources of Real Exchange Rate Fluctuations On Growth and Indeterminacy Global Competition and Integration A History of Macroeconomics from Keynes to Lucas and Beyond The ABCs of RBCs Patterns of Convergence and Divergence in the Euro Area Methods for Applied Macroeconomic Research To Each According to ...? Open Economy Macroeconomics Macroeconomic Analysis

Open Economy Macroeconomics Jan 22 2020 A cutting-edge graduate-level textbook on the macroeconomics of international trade Combining theoretical models and data in ways unimaginable just a few years ago, open economy macroeconomics has experienced enormous growth over the past several decades. This rigorous and self-contained textbook brings graduate students, scholars, and policymakers to the research frontier and provides the tools and context necessary for new research and policy proposals. Martín Uribe and Stephanie Schmitt-Grohé factor in the discipline's latest developments, including major theoretical advances in incorporating financial and nominal frictions into microfounded dynamic models of the open economy, the availability of macro- and microdata for emerging and developed countries, and a revolution in the tools available to simulate and estimate dynamic stochastic models. The authors begin with a canonical general equilibrium model of an open economy and then build levels of complexity through the coverage of important topics such as international business-cycle analysis, financial frictions as drivers and transmitters of business cycles and global crises, sovereign default, pecuniary externalities, involuntary unemployment, optimal macroprudential policy, and the role of nominal rigidities in shaping optimal exchange-rate policy. Based on courses taught at several universities, Open Economy Macroeconomics is an essential resource for students, researchers, and practitioners. Detailed exploration of international business-cycle analysis Coverage of financial frictions as drivers and transmitters of business cycles and global crises Extensive investigation of nominal rigidities and their role in shaping optimal exchange-rate policy Other topics include fixed exchange-rate regimes, involuntary unemployment, optimal macroprudential policy, and sovereign default and debt sustainability Chapters include exercises and replication codes

Interest and Prices Apr 17 2022 With the collapse of the Bretton Woods system, any pretense of a connection of the world's currencies to any real commodity has been abandoned. Yet since the 1980s, most central banks have abandoned money-growth targets as practical guidelines for monetary policy as well. How then can pure "fiat" currencies be managed so as to create confidence in the stability of national units of account? Interest and Prices seeks to provide theoretical foundations for a rule-based approach to monetary policy suitable for a world of instant communications and ever more efficient financial markets. In such a world, effective monetary policy requires that central banks construct a conscious and articulate account of what they are doing. Michael Woodford reexamines the foundations of monetary economics, and shows how interest-rate policy can be used to achieve an inflation target in the absence of either commodity backing or control of a monetary aggregate. The book further shows how the tools of modern macroeconomic theory can be used to design an optimal inflation-targeting regime--one that balances stabilization goals with the pursuit of price stability in a way that is grounded in an explicit welfare analysis, and that takes account of the "New Classical" critique of traditional policy evaluation exercises. It thus argues that rule-based policymaking need not mean adherence to a rigid framework unrelated to stabilization objectives for the sake of credibility, while at the same time showing the advantages of rule-based over purely discretionary policymaking.

Labor Markets and Monetary Policy Apr 05 2021 We construct a utility-based model of fluctuations, with nominal rigidities and unemployment, and draw its implications for the unemployment-inflation tradeoff and for the conduct of monetary policy. We proceed in two steps. We first leave nominal rigidities aside. We show that, under a standard utility specification, productivity shocks have no effect on unemployment in the constrained efficient allocation. We then focus on the implications of alternative real wage setting mechanisms for fluctuations in unemployment. We show the role of labor market frictions and real wage rigidities in determining the effects of productivity shocks on unemployment. We then introduce nominal rigidities in the form of staggered price setting by firms. We derive the relation between inflation and unemployment and discuss how it is influenced by the presence of labor market frictions and real wage rigidities. We show the nature of the tradeoff between inflation and unemployment stabilization, and its dependence on labor market characteristics. We draw the implications for optimal monetary policy.

A Simple Framework for International Monetary Policy Analysis May 06 2021 We study the international monetary policy design problem within an optimizing two-country sticky price model, where each country faces a short run tradeoff between output and inflation. The model is sufficiently tractable to solve analytically. We find that in the Nash equilibrium, the policy problem for each central bank is isomorphic to the one it would face if it were a closed economy. Gains from cooperation arise, however, that stem from the impact of foreign economic activity on the domestic marginal cost of production. While under Nash central banks need only adjust the interest rate in response to domestic inflation, under cooperation they should respond to foreign inflation as well. In either scenario, flexible exchange rates are desirable.

NBER Macroeconomics Annual 2019 Jun 19 2022 The thirty-fourth volume of the NBER Macroeconomics Annual features theoretical and empirical studies of issues in contemporary macroeconomics and a keynote address by James Stock, a member of President Obama's Council of Economic Advisers from 2013 to 2014. Chong-en Bai, Chang-Tai Hsieh, and Zheng Song examine the "special deals" provided by Chinese local governments to favored private firms and their effects on economic growth. Matias Covarrubias, Germán Gutiérrez, and Thomas Philippon study the evolution of profits, investment, and market shares in US industries over the past forty years and find evidence of inefficient concentration and barriers to entry since 2000. David Debortoli, Jordi Galí, and Luca Gambetti assess whether recent economic performance was affected by a binding zero lower bound constraint on the interest rate. Michael McLeay and Silvana Tenreyro explain why it is difficult to empirically identify the Phillips curve (a key element of the policy framework used by central banks) using aggregate data. The authors suggest using regional variation in unemployment and inflation to estimate the relationship between these variables. Margherita Borella, Mariacristina De Nardi, and Fang Yang examine the effects of shorter life expectancies, higher medical expenses, and lower wages for white, non-college-educated Americans born in the 1960s on labor supply and retirement savings. Nir Jaimovich, Sergio Rebelo, Arlene Wong, and Miao Ben Zhang investigate the role that increases in the quality of the goods consumed ("trading up") played in the rise of the skill premium that occurred in the last four decades.

Monetary Policy, Inflation, and the Business Cycle Apr 29 2023 The classic introduction to the New Keynesian economic model This revised second edition of Monetary Policy, Inflation, and the Business Cycle provides a rigorous graduate-level introduction to the New Keynesian framework and its applications to monetary policy. The New Keynesian framework is the workhorse for the analysis of monetary policy and its implications for inflation, economic fluctuations, and welfare. A backbone of the new generation of medium-scale models under development at major central banks and international policy institutions, the framework provides the theoretical underpinnings for the price stability–oriented strategies adopted by most central banks in the industrialized world. Using a canonical version of the New Keynesian model as a reference, Jordi Galí explores various issues pertaining to monetary policy's design, including optimal monetary policy and the desirability of simple policy rules. He analyzes several extensions of the baseline model, allowing for cost-push shocks, nominal wage rigidities, and open economy factors. In each case, the effects on monetary policy are addressed, with emphasis on the desirability of inflation-targeting policies. New material includes the zero lower bound on nominal interest rates and an analysis of unemployment's significance for monetary policy. The most up-to-date introduction to the New Keynesian framework available A single benchmark model used throughout New materials and exercises included An ideal resource for graduate students, researchers, and market analysts

Optimal Monetary Policy with R* Mar 04 2021

Targeting Inflation in an Economy with Staggered Price Setting Aug 09 2021

Defining a Macroeconomic Framework for the Euro Area Jan 02 2021 This volume begins with a review of the main events of the year and how the European Central Bank has dealt with them. The report then deals with the relationships between the ECB and the eurogroup, how the Council make monetary policy decisions and macroeconomic adjustment in the monetary union.

Monetary policy and unemployment Jul 08 2021 Much recent research has focused on the development and analysis of extensions of the New Keynesian framework that model labor market frictions and unemployment explicitly. The present paper describes some of the essential ingredients and properties of those models, and their implications for monetary policy.

Patterns of Convergence and Divergence in the Euro Area Apr 24 2020 We study the extent of macroeconomic convergence/divergence among euro area countries. Our analysis focuses on four variables (unemployment, inflation, relative prices and the current account), and seeks to uncover the role played by monetary union as a convergence factor by using non-euro developed economies and the pre-EMU period as control samples.

On Growth and Indeterminacy Aug 29 2020

Monetary Policy, Inflation, and the Business Cycle Oct 23 2022 The New Keynesian framework has emerged as the workhorse for the analysis of monetary policy and its implications for inflation, economic fluctuations, and welfare. It is the backbone of the new generation of medium-scale models under development at major central banks and international policy institutions, and provides the theoretical underpinnings of the inflation stability-oriented strategies adopted by most central banks throughout the industrialized world. This graduate-level textbook provides an introduction to the New Keynesian framework and its applications to monetary policy. Using a.

The Science and Practice of Monetary Policy Today Mar 16 2022 Bridging the theory and practice of monetary policy, this book presents aspects of the New-Keynesian theory of monetary policy and its implications for the practical decision-making of central bankers. It also outlines important lessons for policymakers.

Monetary Policy Rules in Practice Feb 03 2021 This paper reports estimates of monetary policy reaction functions for two sets of" countries: the G3 (Germany, Japan, and the U.S.) and the E3 (UK, France that since 1979 each of the G3 central banks has pursued an implicit form of inflation targeting which may account for the broad success of monetary policy in those countries over this time" period. The evidence also suggests that these central banks have been forward looking: they" respond to anticipated inflation as opposed to lagged inflation. As for the E3 emergence of the influenced by German" monetary policy. Further, using the Bundesbank's policy rule as a benchmark time of the EMS collapse, interest rates in each of the E3 countries were much higher than" domestic macroeconomic conditions warranted. Taken all together, the results lend support to" the view that some form of inflation targeting may under certain circumstances be superior to" fixing exchange rates, as a means to gain a nominal anchor for monetary policy."

Unemployment Fluctuations and Stabilization Policies Nov 24 2022 A new approach for introducing unemployment into the New Keynesian framework. The past fifteen years have witnessed the rise of the New Keynesian model as a framework of reference for the analysis of fluctuations and stabilization policies. That framework, which combines the rigor and internal consistency of dynamic general equilibrium models with such typically Keynesian assumptions as monopolistic competition and nominal rigidities, makes possible a meaningful, welfare-based analysis of the effects of monetary policy rules. But the conspicuous absence of unemployment from the standard New Keynesian model has given rise to both criticism and attempts to rectify this anomaly. In this book, Jordi Galí, one of the major contributors to the New Keynesian literature, offers a new approach to introducing unemployment into that framework. Galí's approach involves a reinterpretation of the labor market in the standard New Keynesian model with staggered wage setting (rather than a modification or extension of the model, as has been proposed by others). The resulting framework preserves the convenience of the representative household paradigm and allows one to determine the equilibrium levels of employment, the labor force, and hence the unemployment rate conditional on the monetary policy in place. Galí develops the basic model, embedding it in a standard New Keynesian framework with staggered price and wage setting; revisits the relationship between economic fluctuations and efficiency through the lens of the new model, developing a measure of the output gap; and analyzes the relation between unemployment and the design of monetary policy.

Inflation Dynamics Feb 15 2022 We develop and estimate a structural model of inflation that allows for a fraction of firms that use a backward looking rule to set prices. The model nests the purely forward looking New Keynesian Phillips curve as a particular case. We use measures of arginal cost as the relevant determinant of inflation, as the theory suggests, instead of an ad-hoc output gap. Real marginal costs are a significant and quantitatively important determinant of inflation. Backward looking price setting, while statistically significant, is not quantitatively important. Thus, we conclude that the New Keynesian Phillips curve provides a good first approximation to the dynamics of inflation.

Technology Shocks and Monetary Policy Jan 14 2022 Abstract: The purpose of the present paper is twofold. First, we characterize the Fed's systematic response to technology shocks and its implications for U.S. output, hours and inflation. Second, we evaluate the extent to which those responses can be accounted for by a simple monetary policy rule (including the optimal one) in the context of a standard business cycle model with sticky prices. Our main results can be described as follows: First, we detect significant differences across periods in the response of the economy (as well as the Fed's) to a technology shock. Second, the Fed's response to a technology shock in the Volcker-Greenspan period is consistent with an optimal monetary policy rule. Third, in the pre-Volcker period the Fed's policy tended to over stabilize output at the cost of generating excessive inflation volatility. Our evidence reinforces recent results in the literature suggesting an improvement in the Fed's performance.

The ABCs of RBCs May 26 2020 The ABCs of RBCs is the first book to provide a basic introduction to Real Business Cycle (RBC) and New-Keynesian models. These models argue that random shocks—new inventions, droughts, and wars, in the case of pure RBC models, and monetary and fiscal policy and international investor risk aversion, in more open interpretations—can trigger booms and recessions and can account for much of observed output volatility. George McCandless works through a sequence of these Real Business Cycle and New-Keynesian dynamic stochastic general equilibrium models in fine detail, showing how to solve them, and how to add important extensions to the basic model, such as money, price and wage rigidities, financial markets, and an open economy. The impulse response functions of each new model show how the added feature changes the dynamics. The ABCs of RBCs is designed to teach the economic practitioner or student how to build simple RBC models. Matlab code for solving many of the models is provided, and careful readers should be able to construct, solve, and use their own models. In the tradition of the "freshwater" economic schools of Chicago and Minnesota, McCandless enhances the methods and sophistication of current macroeconomic modeling.

Global Competition and Integration Jul 28 2020 Global Competition and Integration offers varied perspectives on the changing international economy. The book is divided into four main sections covering world trade and competition, innovation and growth, financial markets and globalization, and regulation, distribution, and the role of government.

Macroeconomic Analysis Dec 21 2019 A concise but rigorous and thorough introduction to modern macroeconomic theory. This book offers an introduction to modern macroeconomic theory. It is concise but rigorous and broad, covering all major areas in mainstream macroeconomics today and showing how macroeconomic models build on and relate to each other. The self-contained text begins with models of individual decision makers, proceeds to models of general equilibrium without and with friction, and, finally, presents positive and normative theories of economic policy. After a review of the microeconomic foundations of macroeconomics, the book analyzes the household optimization problem, the representative household model, and the overlapping generations model. It examines risk and the implications for household choices and macroeconomic outcomes; equilibrium asset returns, prices, and bubbles; labor supply, growth, and business cycles; and open economy issues. It introduces frictions and analyzes their consequences in the labor market, financial markets, and for investment; studies money as a unit of account, store of value, and medium of exchange; and analyzes price setting in general equilibrium. Turning to government and economic policy, the book covers taxation, debt, social security, and monetary policy; optimal fiscal and monetary policies; and sequential policy choice, with applications in capital income taxation, sovereign debt and default, politically motivated redistribution, and monetary policy biases. Macroeconomic Analysis can be used by first-year graduate students in economics and students in master's programs, and as a supplemental text for advanced courses.

Optimal Monetary Policy in Closed Versus Open Economies Sep 22 2022 This paper develops a new open economy macro model of optimal monetary for a small open economy. Our main result is that in this model, the optimal policy problem for the small open economy is isomorphic to the closed economy case studied in Clarida, Gali, Gertler (1999). In particular, the optimal policy can be implemented with a Taylor Rule under which the domestic interest rate adjusts to the equilibrium real interest rate and expected inflation in domestic prices.

European Inflation Dynamics Oct 31 2020 We provide evidence on the fit of the New Phillips Curve (NPQ for the Euro area over the period 1970-1998, and use it as a tool to compare the characteristics of European inflation dynamics with those observed in the U.S. We also analyze the factors underlying inflation inertia by examining the cyclical behavior of marginal costs, as well as that of its two main components, namely, labor productivity and real wages. Some of the findings can be summarized as follows: (a) the NPC fits Euro area data very well, possibly better than U.S. data, (b) the degree of price stickiness implied by the estimates is substantial, but in line with survey evidence and U.S. estimates, (c) inflation dynamics in the Euro area appear to have a stronger forward- looking component (i.e., less inertia) than in the U.S., (d) labor market frictions, as manifested in the behavior of the wage markup, appear to have played a key role in shaping the behavior of marginal costs and, consequently, inflation in Europe.

Methods for Applied Macroeconomic Research Mar 24 2020 The last twenty years have witnessed tremendous advances in the mathematical, statistical, and computational tools available to applied macroeconomists. This rapidly evolving field has redefined how researchers test models and validate theories. Yet until now there has been no textbook that unites the latest methods and bridges the divide between theoretical and applied work. Fabio Canova brings together dynamic equilibrium theory, data analysis, and advanced econometric and computational methods to provide the first comprehensive set of techniques for use by academic economists as well as professional macroeconomists in banking and finance, industry, and government. This graduate-level textbook is for readers knowledgeable in modern macroeconomic theory, econometrics, and computational programming using RATS, MATLAB, or Gauss. Inevitably a modern treatment of such a complex topic requires a quantitative perspective, a solid dynamic theory background, and the development of empirical and numerical methods--which is where Canova's book differs from typical graduate textbooks in macroeconomics and econometrics. Rather than list a series of estimators and their properties, Canova starts from a class of DSGE models, finds an approximate linear representation for the decision rules, and describes methods needed to estimate their parameters, examining their fit to the data. The book is complete with numerous examples and exercises. Today's economic analysts need a strong foundation in both theory and application. Methods for Applied Macroeconomic Research offers the essential tools for the next generation of macroeconomists.

A History of Macroeconomics from Keynes to Lucas and Beyond Jun 26 2020 This book retraces the history of macroeconomics from Keynes's General Theory to the present. Central to it is the contrast between a Keynesian era and a Lucasian - or dynamic stochastic general equilibrium (DSGE) - era, each ruled by distinct methodological standards. In the Keynesian era, the book studies the following theories: Keynesian macroeconomics, monetarism, disequilibrium macro (Patinkin, Leijongufvud, and Clower) non-Walrasian equilibrium models, and first-generation new Keynesian models. Three stages are identified in the DSGE era: new classical macro (Lucas), RBC modelling, and second-generation new Keynesian modeling. The book also examines a few selected works aimed at presenting alternatives to Lucasian macro. While not eschewing analytical content, Michel De Vroey focuses on substantive assessments, and the models studied are presented in a pedagogical and vivid yet critical way.

To Each According to ...? Feb 21 2020 Abstract: We compare the performance of markets and tournaments as allocative mechanisms in an economy with borrowing constraints. The model consists of a continuum of individuals who differ in their initial wealth and ability level (e.g. students) and that are to be assigned to a continuum of investment opportunities or inputs of different productivity (e.g. schools of different qualities). With perfect capital markets both mechanisms achieve the efficient allocation, though markets generate higher aggregate consumption because of the waste associated with the production of signals under tournaments. When borrowing constraints are present, however, tournaments dominate markets in terms of aggregate output and, for sufficiently powerful signaling technologies, also in terms of aggregate consumption.

The State of New Keynesian Economics May 18 2022 I provide an overview of recent developments in monetary economics, with an emphasis on extensions of the New Keynesian framework that assume a zero lower bound on the short term nominal rate, as well as models with household heterogeneity.

The Monetary Policy Strategy of the ECB Reconsidered Feb 27 2023 As one of the world's key central banks, the European Central Bank comes under intense public scrutiny. Yet, its constituency is diverse, with different national traditions of central banking and varied views about the conduct of monetary policy. The ECB acts on behalf of all the members of EMU, but belongs to no particular member state. It is accountable to the European Parliament, which has only a very recent tradition of oversight of monetary policy. For these reasons, there is a need for a regular, rigorous, non-partisan and pan-European analysis of the options facing the ECB and the policies it pursues. Monitoring the European Central Bank addresses this need. Written by a team of distinguished academic economists known internationally for their work on macroeconomics and monetary policy, MECB produces a full report and an Update each year. The full report describes the issues faced by the ECB during the preceding year; assesses the policy choices that were made; and sets out the issues likely to arise during the coming year. The Update offers a follow-up to the main report, and is written in the light of the Bank's own annual report. 'Duisenberg record' and the recent review by the ECB of its monetary policy strategy. It finds that the ECB has failed to achieve its stated key objective of avoiding inflation in excess of 2 per cent. Tough rhetoric without delivery has been a strategic mistake. Actual inflation appears to be adrift due to inattentive policy. This could lead to a dangerous and costly-to-correct climb in the inflation rates, unless sufficient attention is paid soon to this issue by the ECB. The ECB should have used its review of the monetary policy strategy to admit this failure and to adjust its inflation target range upwards, bringing words in line with actual policy. It did not, and stresses continuity instead. Money still continues to play too prominent a role in the ECB's stated strategy. The report examines several of the arguments often given for a prominent role of money, and finds none of them convincing. Inflation at present and in the future should be the central focus of the ECB's analysis, not money growth rates. Deflation is a risk that is always present when inflation is low. The ECB should admit this rather than avoi

Monetary Policy, Inflation, and the Business Cycle Mar 28 2023 The classic introduction to the New Keynesian economic model This revised second edition of Monetary Policy, Inflation, and the Business Cycle provides a rigorous graduate-level introduction to the New Keynesian framework and its applications to monetary policy. The New Keynesian framework is the workhorse for the analysis of monetary policy and its implications for inflation, economic fluctuations, and welfare. A backbone of the new generation of medium-scale models under development at major central banks and international policy institutions, the framework provides the theoretical underpinnings for the price stability–oriented strategies adopted by most central banks in the industrialized world. Using a canonical version of the New Keynesian model as a reference, Jordi Galí explores various issues pertaining to monetary policy's design, including optimal monetary policy and the desirability of simple policy rules. He analyzes several extensions of the baseline model, allowing for cost-push shocks, nominal wage rigidities, and open economy factors. In each case, the effects on monetary policy are addressed, with emphasis on the desirability of inflation-targeting policies. New material includes the zero lower bound on nominal interest rates and an analysis of unemployment’s significance for monetary policy. The most up-to-date introduction to the New Keynesian framework available A single benchmark model used throughout New materials and exercises included An ideal resource for graduate students, researchers, and market analysts

NBER Macroeconomics Annual 2004 Sep 10 2021 Papers by leading researchers consider such questions as the effect of government debt on interest rates; technology shocks, demand shocks, and output volatility; and procyclical macroeconomic policies in developing countries.

Monetary Policy Rules and Macroeconomic Stability Dec 01 2020 We estimate a forward-looking monetary policy reaction function for the postwar US economy, pre- and post-October 1979. Our results point to substantial differences in the estimated rule across periods. In particular, interest rate policy in the Volcker-Greenspan period appears to have been much more sensitive to changes in expected inflation than in the pre-Volcker period. We then compare some of the implications of the estimated rules for equilibrium properties of inflation and output, using a simple macroeconomic model. The pre-Volcker rule is shown to be consistent with the possibility of persistent, self-fulfilling fluctuations in inflation and output. In contrast, the Volcker-Greenspan rule is stabilizing.

Monetary Policy and Exchange Rate Volatility in a Small Open Economy Dec 13 2021 We lay out a small open economy version of the Calvo sticky price model, and show how the equilibrium dynamics can be reduced to a tractable canonical system in domestic inflation and the output gap. We employ this framework to analyze the macroeconomic implications of three alternative monetary policy regimes for the small open economy: domestic inflation targeting, CPI targeting and an exchange rate peg. We show that a key difference among these regimes lies in the relative amount of exchange rate volatility that they entail. We also discuss a special case for which domestic inflation targeting constitutes the optimal policy, and where a simple second order approximation to the utility of the representative consumer can be derived and used to evaluate the welfare losses associated with suboptimal regimes.

On the Empirical (Ir)Relevance of the Zero Lower Bound Constraint Jun 07 2021 We estimate a time-varying structural VAR that describes the dynamic responses of a number of U.S. macro variables to different identified shocks. We find no significant changes in the estimated responses over the period when the federal funds rate attained the zero lower bound (ZLB). This result is consistent with the hypothesis of "perfect substitutability" between conventional and unconventional monetary policies. Montecarlo simulations based on artificial time series generated from a standard New Keynesian model point to the validity of our empirical approach to detect the changes in equilibrium dynamics associated with ZLB episodes.

International Dimensions of Monetary Policy Jan 26 2023 United States monetary policy has traditionally been modeled under the assumption that the domestic economy is immune to international factors and exogenous shocks. Such an assumption is increasingly unrealistic in the age of integrated capital markets, tightened links between national economies, and reduced trading costs. International Dimensions of Monetary Policy brings together fresh research to address the repercussions of the continuing evolution toward globalization for the conduct of monetary policy. In this comprehensive book, the authors examine the real and potential effects of increased openness and exposure to international economic dynamics from a variety of perspectives. Their findings reveal that central banks continue to influence decisively domestic economic outcomes—even inflation—suggesting that international factors may have a limited role in national performance. International Dimensions of Monetary Policy will lead the way in analyzing monetary policy measures in complex economies.

New Perspectives on Monetary Policy, Inflation and the Business Cycle Jul 20 2022 Abstract: The present paper provides an overview of recent developments in the analysis of monetary policy in the presence of nominal rigidities. The paper emphasizes the existence of several dimensions in which the recent literature provides a new perspective on the linkages among monetary policy, inflation, and the business cycle. It is argued that the adoption of an explicitly optimizing, general equilibrium framework has not been superfluous; on the contrary, it has yielded many insights which, by their nature, could hardly have been obtained with earlier non-optimizing models.

Macroeconomic Fluctuations and Policies Oct 11 2021 The basic tools for analyzing macroeconomic fluctuations and policies, applied to concrete issues and presented within an integrated New Keynesian framework. This textbook presents the

basic tools for analyzing macroeconomic fluctuations and policies and applies them to contemporary issues. It employs a unified New Keynesian framework for understanding business cycles, major crises, and macroeconomic policies, introducing students to the approach most often used in academic macroeconomic analysis and by central banks and international institutions. The book addresses such topics as how recessions and crises spread; what instruments central banks and governments have to stimulate activity when private demand is weak; and what “unconventional” macroeconomic policies might work when conventional monetary policy loses its effectiveness (as has happened in many countries in the aftermath of the Great Recession.). The text introduces the foundations of modern business cycle theory through the notions of aggregate demand and aggregate supply, and then applies the theory to the study of regular business-cycle fluctuations in output, inflation, and employment. It considers conventional monetary and fiscal policies aimed at stabilizing the business cycle, and examines unconventional macroeconomic policies, including forward guidance and quantitative easing, in situations of “liquidity trap”—deep crises in which conventional policies are either ineffective or have very different effects than in normal time. This book is the first to use the New Keynesian framework at the advanced undergraduate level, connecting undergraduate learning not only with the more advanced tools taught at the graduate level but also with the large body of policy-oriented research in academic journals. End-of-chapter problems help students master the materials presented.
Unemployment Fluctuations and Stabilization Policies Dec 25 2022 A new approach for introducing unemployment into the New Keynesian framework. The past fifteen years have witnessed the rise of the New Keynesian model as a framework of reference for the analysis of fluctuations and stabilization policies. That framework, which combines the rigor and internal consistency of dynamic general equilibrium models with such typically Keynesian assumptions as monopolistic competition and nominal rigidities, makes possible a meaningful, welfare-based analysis of the effects of monetary policy rules. But the conspicuous absence of unemployment from the standard New Keynesian model has given rise to both criticism and attempts to rectify this anomaly. In this book, Jordi Galí, one of the major contributors to the New Keynesian literature, offers a new approach to introducing unemployment into that framework. Galí's approach involves a reinterpretation of the labor market in the standard New Keynesian model with staggered wage setting (rather than a modification or extension of the model, as has been proposed by others). The resulting framework preserves the convenience of the representative household paradigm and allows one to determine the equilibrium levels of employment, the labor force, and hence the unemployment rate conditional on the monetary policy in place. Galí develops the basic model, embedding it in a standard New Keynesian framework with staggered price and wage setting; revisits the relationship between economic fluctuations and efficiency through the lens of the new model, developing a measure of the output gap; and analyzes the relation between unemployment and the design of monetary policy.
Macroeconomic Modeling for Monetary Policy Evaluation Nov 12 2021 We describe some of the main features of the recent vintage macroeconomic models used for monetary policy evaluation. We point to some of the key differences with respect to the earlier generation of macro models, and highlight the insights for policy that these new frameworks have to offer. Our discussion emphasizes two key aspects of the new models: the significant role of expectations of future policy actions in the monetary transmission mechanism, and the importance for the central bank of tracking of the flexible price equilibrium values of the natural levels of output and the real interest rate. We argue that both features have important implications for the conduct of monetary policy.
Sources of Real Exchange Rate Fluctuations Sep 29 2020 This paper attempts to identify the sources of real exchange rate fluctuations since the collapse of the Bretton Woods period. We use a structural VAR model with recursive long-run restrictions to decompose the real exchange rate series into three components, associated with supply, demand and monetary shocks. Our estimates imply that monetary shocks account for a substantial fraction of the variability of both yen and Deutschmark real exchange rate variations against the dollar. Demand shocks appear as the largest source of real exchange rate fluctuations for all the currencies considered, while supply shocks seem to play a minor role.
The Science of Monetary Policy Aug 21 2022 This paper reviews the recent literature on monetary policy rules. We exploit the monetary policy design problem within a simple baseline theoretical framework. We then consider the implications of adding various real world complications. Among other things, we show that the optimal policy implicitly incorporates inflation targeting. We also characterize the gains from making a credible commitment to fight inflation. In contrast to conventional wisdom, we show that gains from commitment may emerge even if the central bank is not trying to inadvisedly push output above its natural level. We also consider the implications of frictions such as imperfect information.

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