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Master's seminar: Topics in Macroeconomics

Optimality and Interactions of Fiscal and Monetary Policy

Summer 2024

- Content:

  This seminar surveys the literature on the optimal conduct and potential interactions between fiscal and monetary policies. Participants will have the opportunity to present and discuss classical and recent papers representing the research frontier in this field.

- Prerequisites:

  ○ Successful participation in Advanced Macroeconomics I is required.

  ○ We expect a general interest in models of the business cycle, as well as in the design of optimal fiscal and monetary policy.

- Areas of specialization for M.Sc. Economics:

  ○ Economics and Politics

  ○ Finance

  ○ Information Systems and Network Economics

- Areas of specialization for M.Sc. VWL:

  ○ Accounting, Finance and Taxation

  ○ International and Development Economics

  ○ Public Sector Economics and International Taxation

- Grading:

  ○ To obtain 6 ECTS, participants

    1. actively participate in in-class discussions,

    2. deliver a presentation on their topic,

    3. write a summary report on three seminar sessions, excluding the one containing your own presentation. *Hint: each session consists of maximally two presentations*

  ○ The final grade is a weighted average of 1 (10 %), 2 (45%), and 3 (45%).

  ○ All parts 1-3 must be completed with a grade of 4.0 or better.

- Organization:

  ○ All presentations take place in-person. Remote participation is not possible.

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- The seminar kicks off on **April 18th** at 10:15 am.
- Presentations take place weekly on Thursdays from 10:15 to 13:00 starting **May 16** and ending on **July 11**. Details will be announced in the kick-off meeting.
- The kick-off and all seminar talks take place in the Economic Faculty's building, Rempartstrasse 16, Room 01 012 (1st level).

- Participation:
  - To sign up for the seminar, please send an email to markus.epp@vwl.uni-freiburg.de no later than Monday **April 15th**
  - In your mail, please include a **transcript of records** and provide a **ranked list** of your three favorite seminar topics. This ranking should be of the form 2B > 3C > 1A.

- Allocation of topics:
  - We will assign the seminar topics and announce the allocation during the kick-off.
  - While we will do our best to assign topics based on your preferences, we cannot guarantee that everybody will get their most favorite topic.

- Guidelines for reports:
  - The reports summarize the presented paper(s) and the classroom discussion of the respective session.
  - They should take the form of a self-contained research paper including, aside the main text:
    1. Titlepage (topic, personal information of author, seminar title, date);
    2. List of references;
    3. Mathematical appendix, if necessary.
  - The main text comprises:
    1. A summary part (2 pages), consisting of a brief description of the research question, a concise description of the model, and the main results.
    2. A discussion part (1 page), reviewing the article(s) critically.
  - The report must comply with the following formatting guidelines:
    – Din A4 paper, 12pts lettering with 1.5 line spacing and 2cm margins.
    – Admissible font families include Arial, Times, and the Computer Modern TeX-fonts.
    – Citation should be done in the American Psychological Association style.
  - Reports must be submitted on Tuesday one week after the presentation/discussion of the respective topic.

- Guidelines for the presentation:
  - The presentations should take the form of a self-contained talk including
    – An introduction (research question, contribution)
    – A reproduction of the assigned research article
    – A summary of the main results and limitations.
  - Slides must be submitted one day before the presentation.

- Further details will be announced during the kick-off meeting.

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- Seminar topics:

1. **Price-level determinacy and the interaction of fiscal and monetary policy**

   1A: Schmitt-Grohé, S., & Uribe, M. (2000). Price level determinacy and monetary policy under a balanced-budget requirement. *Journal of Monetary Economics*, *45*(1), 211–246

   1B: Woodford, M. (1995). Price-level determinacy without control of a monetary aggregate. *Carnegie-Rochester conference series on public policy*, *43*, 1–46

   1C: Kocherlakota, N., & Phelan, C. (1999). Explaining the fiscal theory of the price level. *Federal Reserve Bank of Minneapolis Quarterly Review*, *23*(4), 14–23

2. **Optimal fiscal and monetary policy**

   2A: Chari, V. V., Christiano, L. J., & Kehoe, P. J. (1996). Optimality of the friedman rule in economies with distorting taxes. *Journal of Monetary Economics*, *37*(2), 203–223.

   2B: Schmitt-Grohé, S., & Uribe, M. (2010). The optimal rate of inflation. In *Handbook of monetary economics* (pp. 653–722). Elsevier, chs. 1-5: the neoclassical case

   2C: Schmitt-Grohé, S., & Uribe, M. (2010). The optimal rate of inflation. In *Handbook of monetary economics* (pp. 653–722). Elsevier, chs. 6-10: the New-Keynesian case

3. **Fiscal multipliers**

   3A: Woodford, M. (2011). Simple analytics of the government expenditure multiplier. *American Economic Journal: Macroeconomics*, *3*(1), 1–35

   3B: Christiano, L., Eichenbaum, M., & Rebelo, S. (2011). When is the government spending multiplier large? *Journal of Political Economy*, *119*(1), 78–121

   3C: Boneva, L. M., Braun, R. A., & Waki, Y. (2016). Some unpleasant properties of loglinearized solutions when the nominal rate is zero. *Journal of Monetary Economics*, *84*, 216–232

4. **Time consistency and stabilization over the business cycle**

   4A: Chari, V. V., Christiano, L. J., & Kehoe, P. J. (1994). Optimal fiscal policy in a business cycle model. *Journal of polítical Economy*, *102*(4), 617–652

   4B: Alvarez, F., Kehoe, P. J., & Neumeyer, P. A. (2004). The time consistency of optimal monetary and fiscal policies. *Econometrica*, *72*(2), 541–567

   4C: Persson, M., Persson, T., & Svensson, L. E. (2006). Time consistency of fiscal and monetary policy: A solution. *Econometrica*, *74*(1), 193–212

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