Money, Credit and Finance
Geld, Kredit und Finanzierung

Florian Huber, Katrin Rabitsch

WU Vienna

January 10, 2018

Overview

- comprehensive introduction to various topics in monetary macroeconomics, from both a theoretical and empirical perspective:
- first part of the course is lecture-based:
- - lectures on the theory part (taught by Katrin Rabitsch) will focus on the baseline New Keynesian model and simple extensions, as well as a short introduction into solving and analyzing DSGE models.
  - lectures on the empirical part (taught by Florian Huber) focus on the macroeconometric methods needed to analyze the conduct of monetary policy and its transmission mechanism
- important topics covered:
  1. Conventional monetary policy
  2. Unconventional monetary policy
  3. International spillover analysis
  4. Forecasting
- In the second part of the course, students gain hands-on-experience through an independent research project – includes seminar thesis and presentation

Block I: Monetary policy

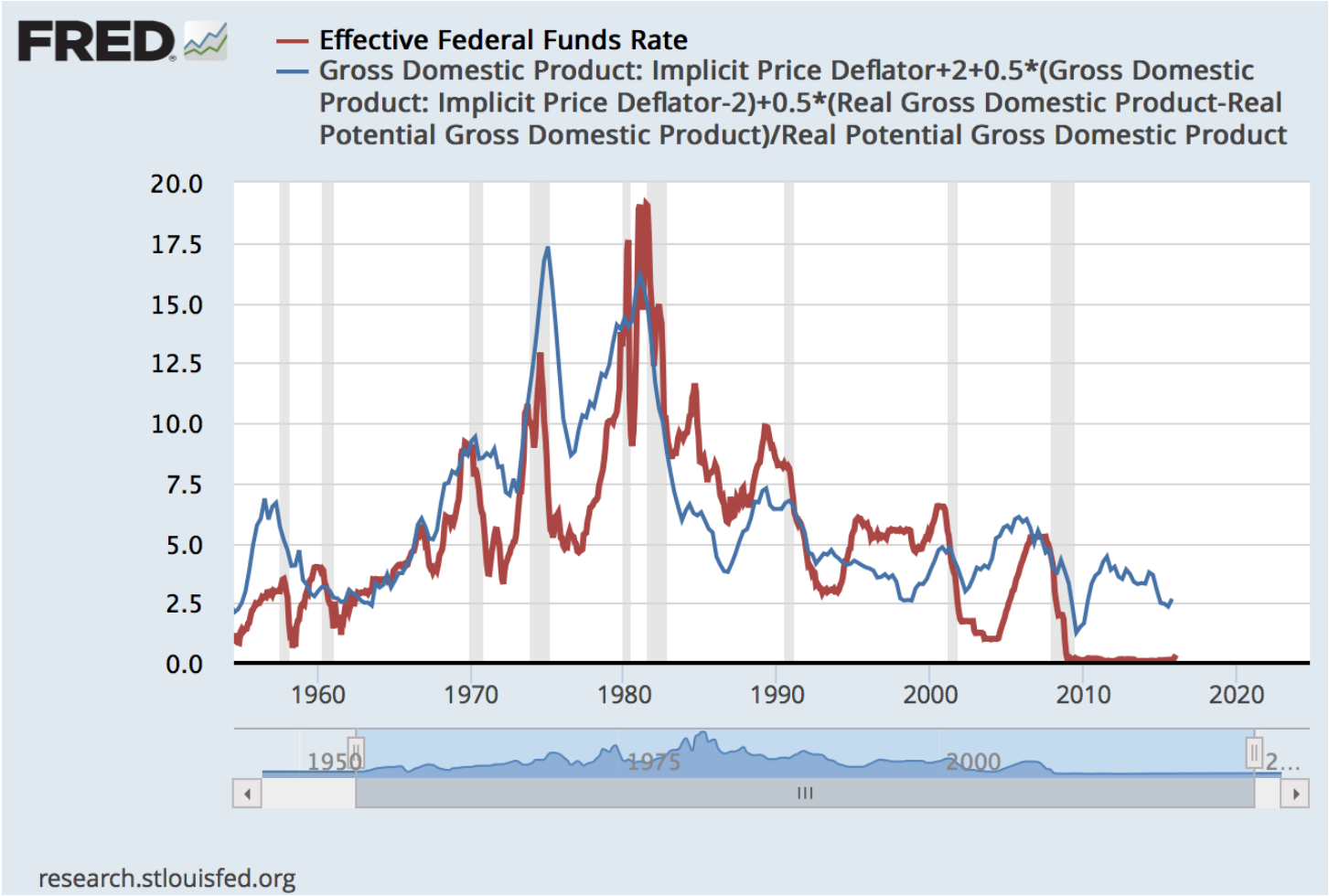
- Covers everything most Central Banks did prior to 2007-2009
- Conventional monetary policy predominantly uses short-term interest rates as the main policy making tool
- In addition, we also discuss rule-based monetary policy strategies
- on the theoretical side, students will be familiarized with the baseline New Keynesian (NK) model
- on the empirical side, focus will be on small-scale vector autoregressions to analyze the impact of monetary policy shocks on the real economy

Example: Taylor rules in the US

John Taylor stated in the beginning of the nineties that past US monetary policy may be well described by the following equation:

$$i_t = \hat{\pi}_{t+1} + 0.5(\hat{\pi}_{t+1} - 2) + 0.5\hat{y}$$

This extremely simple model worked quite well until recently (zero lower bound)


FRED
Effective Federal Funds Rate
Gross Domestic Product: Implicit Price Deflator+2+0.5*(Gross Domestic Product: Implicit Price Deflator-2)+0.5*(Real Gross Domestic Product-Real Potential Gross Domestic Product)/Real Potential Gross Domestic Product
20.0
17.5
15.0
12.5
10.0
7.5
5.0
2.5
0.0
1960
1970
1980
1990
2000
2010
2020
1950
1975
2000
research.stlouisfed.org

Block II: Unconventional monetary policy

- Policy rates hit the zero lower bound during the last financial crisis
- Central Banks had to resort to other ways of stimulating the real economy
- Different ways of conducting unconventional monetary policy will be discussed
- on the theoretical side, will see extensions of the NK model with a ZLB; also, financial frictions macro-model with explicit credit (i.e. unconventional) policy
- on the empirical side, methodological aspects (non-linearities in the underlying transmission channels, for instance) will also be covered

Block III: International spillover analysis

- Globalization led to increased connectivity between economies
- Local shocks now spread globally (for instance, the financial crisis started on the US housing market)
- Global consequences will be investigated using large-dimensional models
- Hands-on experience using our R toolbox (Feldkircher & Huber, 2017) and the Matlab toolbox

Block IV: Forecasting

- Central Banks and other policy institutions rely on accurate predictions to guide policy making
- Modern econometric tools are increasingly adopted to achieve this goal
- We will discuss Bayesian methods that are used at the ECB, the BoE and the Fed System

Grading

1. Active class participation (10 %)
2. Final Exam after both lecture parts (30 %)
3. *Mid-term presentation* that covers the main research ideas, outline of the term paper and the modeling framework, and *End-term presentation* in June that should briefly summarize the main findings of the term paper (30 %)
4. Term paper (approximately 15 pages) (30%)
5. Strong term-papers can be extended to a MSc. Thesis