**ECON 7395 Monetary Policy David Papell Spring 2014**

The readings are divided into three areas, pre-Taylor rule (Section 1), Taylor rule (Sections 2 – 5), and financial crisis/monetary policy at the zero lower bound (Section 6). The material in the last section is evolving, and I’m sure that I will add readings before the end of the semester. The syllabus on my web page contains links to all of the readings except for Woodford’s book.

The requirements for the course are an empirical paper and a final examination. For the paper, I expect you to ask a question, write a literature review, estimate something, and write up your results. The benchmark paper would estimate a Taylor rule with real-time data for some country other than the U.S., but I am open to more original ideas, I would expect the paper to be about 10-15 pages long including footnotes, references, figures, and tables, and to look like a short journal article.

**I. Stabilization Policy, Rational Expectations, and the Phillips Curve**

Friedman, Milton, 1968. [“The Role of Monetary Policy,”](http://econ.cudenver.edu/beckman/Finance/friedman-role.pdf) *American Economic Review*, 58, 1-17.

Lucas, Robert ["Econometric Policy Evaluation: A Critique,"](http://pareto.uab.es/mcreel/reading_course_2006_2007/lucas1976.pdf) in The Phillips Curve and Labor Markets, vol. 1 of Carnegie-Rochester Conference Series in Public Policy, K. Brunner and A. Meltzer, Ed., 1976, 19-46, reprinted in Studies in Business Cycle Theory (L), R. Lucas, ed., 104-130.

Lucas, Robert ["Some International Evidence on Output-Inflation Tradeoffs,"](http://www.econ.ubc.ca/beaudry/546/lucas.pdf) AER, June 1973, 326-334, reprinted in LS, 131-145.

Sargent, Thomas and Neal Wallace ["Rational Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule,"](http://www.jstor.org/stable/pdfplus/1830921.pdf) JPE 1975, reprinted in Rational Expectations and Econometric Practice (LS), Robert Lucas and Thomas Sargent, Ed., 215-228

Fischer, Stanley ["Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule,"](http://www.jstor.org/stable/pdfplus/1828335.pdf) JPE 1977, reprinted in LS, 261-276

Taylor, John ["Staggered Wage Setting in a Macro Model,"](http://www.jstor.org/stable/pdfplus/1801626.pdf) AER, May 1979, 108-113

Calvo, Guillermo ["Staggered Prices in a Utility-Maximizing Framework,"](http://isites.harvard.edu/fs/docs/icb.topic500592.files/calvo.pdf) JME 1983, 383-398.

Mankiw, N. Gregory and Ricardo Reis ["Sticky Information Versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve,"](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=268692) Quarterly Journal of Economics, 2002, 1295-1328

Kydland, Finn and Edward Prescott ["Rules Rather than Discretion: The Inconsistency of Optimal Plans,"](http://minneapolisfed.org/research/prescott/papers/rulesdiscretion.pdf) JPE 1977, reprinted in LS, 619-638

**II. The Taylor Rule**

Taylor, John ["Discretion Versus Policy Rules in Practice,"](http://www.stanford.edu/~johntayl/Papers/Discretion.PDF) Carnegie-Rochester Conference Series in Public Policy, 1993, 195-214.

Taylor, John, “[The Robustness and Efficiency of Monetary Policy Rules as Guidelines for Interest Rate Setting by the European Central Bank”](http://www.stanford.edu/~johntayl/Papers/taylor2.pdf) Journal of Monetary Economics, 1999, pp.655-679

Asso, Francesco, George Kahn and Robert Leeson, [“The Taylor Rule and the Transformation of Monetary Policy”](http://www.kc.frb.org/Publicat/RESWKPAP/PDF/RWP07-11.pdf), Federal Reserve Bank of Kansas City RWP 07-11, 2007

**III. The IS Curve, Phillips Curve, and Taylor Rule Model**

Woodford, Michael, 2008, [“How Important is Money in the Conduct of Monetary Policy?”](http://www.columbia.edu/~mw2230/Bern.pdf) Journal of Money, Credit, and Banking, vol. 40, pages 1561-1598.

Woodford, Michael, [Interest and Prices](http://press.princeton.edu/titles/7603.html), Princeton University Press, 2003, pages 245-261

Calrida, Richard, Gali, Jordi and Mark Gertler ["The Science of Monetary Policy: A New Keynesian Perspective,"](http://www.econ.nyu.edu/user/gertlerm/science.pdf) Journal of Economic Literature, 1999, 1661-1669.

Curdia, Vasco and Michael Woodford, “[Credit Spreads and Monetary Policy](http://www.columbia.edu/~mw2230/CreditSpreads_0110.pdf),” Journal of Money, Credit, and Banking, 2010

Curdia, Vasco and Michael Woodford, “[Conventional and Unconventional Monetary Policy](http://research.stlouisfed.org/publications/review/10/07/Curdia.pdf),” Federal Reserve Bank of St. Louis Review, July/August 2010, 229-264

**IV. Monetary Policy Evaluation with Taylor Rules**

Taylor, John ["A Historical Analysis of Monetary Policy Rules,"](http://www.stanford.edu/~johntayl/Papers/w6768.pdf) in Monetary Policy Rules, J. Taylor, ed., 1999, 319-348.

Clarida, Richard, Jordi Gali, and Mark Gertler, 1998, [“Monetary policy rules in practice: Some international evidence,”](http://econ.as.nyu.edu/docs/IO/9382/RR97-32.PDF) European Economic Review, vol. 42, pages 1033-1067.

Clarida, Richard, Jordi Gali, and Mark Gertler, 2000, [“Monetary policy rules and macroeconomic stability: Evidence and some theory,”](http://www.nyu.edu/econ/user/gertlerm/qje00.pdf) Quarterly Journal of Economics, vol. 115(1), pages 147-180.

Judd, John and Glenn Rudebusch, 1998, [“Taylor’s Rule and the Fed: 1970-1997,”](http://www.sf.frb.org/econrsrch/econrev/98-3/3-16.pdf) Federal Reserve Bank of San Francisco Economic Review, 98(3), 3-16.

Blinder, Alan S. and Ricardo Reis, [“Understanding the Greenspan Standard”](https://www.kansascityfed.org/publicat/sympos/2005/PDF/Blinder-Reis2005.pdf), in The Greenspan Era: Lessons for the Future, Federal Reserve Bank of Kansas City, 2005, pp.11-96

Rudebusch, Glenn, [“Monetary Policy Inertia: A Fact or Fiction?”](http://www.ijcb.org/journal/ijcb06q4a4.pdf) International Journal of Central Banking, 2006, pp.85-135

**V. Taylor Rules with Real-Time Data**

Orphanides, Athanasios, 2001. [“Monetary policy rules based on real-time data,”](http://www.federalreserve.gov/pubs/feds/1998/199803/199803pap.pdf) American Economic Review, vol. 91(4), pages 964-985.

Orphanides, Athanasios, 2000. [“Activist Stabilization Policy and Inflation: The Taylor Rule in the 1970s,”](http://www.federalreserve.gov/pubs/feds/2000/200013/200013pap.pdf) unpublished, Federal Reserve Board.

Orphanides, Athanasios, 2002. [“Monetary Policy Rules and the Great Inflation,”](http://www.federalreserve.gov/pubs/feds/2002/200208/200208pap.pdf) American Economic Review Papers and Proceedings, 92(2), 115-120.

Orphanides, Athanasios, 2003. [“Historical Monetary Policy Analysis and the Taylor Rule,”](http://www.federalreserve.gov/pubs/feds/2003/200336/200336pap.pdf) Journal of Monetary Economics, 50, 983-1022.

Orphanides, Athanasios, 2003. [“The Quest for Prosperity without Inflation,”](http://www.sciencedirect.com/science/article/B6VBW-48FCGM3-3/2/4d80a431ebe77c14f5a38a5b1e30e468) Journal of Monetary Economics, 50, 633-663.

Orphanides, Athanasios, 2004. [“Monetary policy rules, Macroeconomic Stability, and Inflation: A View from the Trenches,”](http://www.federalreserve.gov/pubs/feds/2001/200162/200162pap.pdf) Journal of Money, Credit, and Banking, 36, 151-175.

Taylor, John, 2000. [“Comments on Athanasios Orphanides’ The Quest for Prosperity without Inflation,”](http://www.stanford.edu/~johntayl/PptLectures/CommentsOnAthanasiosOrphanides%2B%28Jan%2B2000%29.ppt) unpublished, Stanford University.

Cecchetti, Stephen, Peter Hooper, Bruce Kasman, Kermit Schoenholtz, and Mark Watson, 2007. [“Understanding the Evolving Inflation Process,”](http://research.chicagobooth.edu/igm/docs/2007USMPF-Report.pdf) U.S. Monetary Policy Forum.

Levin, Andrew and John Taylor, 2009, [“Falling Behind the Curve: A Positive Analysis of Stop-Start Monetary Policies and the Great Inflation,”](http://www.stanford.edu/~johntayl/Levin-Taylor%20GreatInflation%2023dec2009.pdf) in Michael Bordo and Athanasios Orphanides, eds., *The Great Inflation*, University of Chicago Press.

Niklosko-Rzhevskyy, Alex and David H. Papell, 2012. “[Taylor Rules and the Great Inflation](http://www.uh.edu/~dpapell/Taylor%20Great%20Inflation.pdf),” Journal of Macroeconomics, 903-918, [slides](file:///C%3A%5CDPapell%27s%20Data%5CDocuments%5CPAP%5CTaylor%20Rule%20Great%20Inflation%2003-19-14.pptx)

Gerberding, Christina, Andreas Worms, and Franz Seitz, [“How the Bundesbank Really Conducted Monetary Policy: An Analysis Based on Real-Time Data.”](http://econstor.eu/bitstream/10419/19492/1/200425dkp.pdf) The North American Journal of Economics and Finance, 2005, 16, pp.277-292

Molodtsova, Tanya, Alex Nikolsko-Rzhevskyy and David H. Papell, [“Taylor Rules with Real-Time Data: A Tale of Two Countries and One Exchange Rate”](http://www.uh.edu/~dpapell/Taylor%20Real%20Time.pdf) Journal of Monetary Economics, 2008, 55, pp.S63-S79, [slides](../PAP/Taylor%20Rule%20Real%20Time%20Presentation%2003-19-14.pptx)

Murray, Christian, Nikolsko-Rzhevskyy, Alex, and David Papell, 2013, “[Markov Switching and the Taylor Principle](http://www.yahoo.com/),” forthcoming, Macroeconomic Dynamics, [slides](file:///C%3A%5CDPapell%27s%20Data%5CDocuments%5CPAP%5CMarkov%20Switching%20and%20the%20Taylor%20Principle%20UW%20Slides.pdf)

**VI. Monetary Policy and the Second Great Contraction**

Taylor, John, [“Housing and Monetary Policy”,](http://www.stanford.edu/~johntayl/Housing%20and%20Monetary%20Policy--Taylor--Jackson%20Hole%202007.pdf) in Housing, Housing Finance, and Monetary Policy, Federal Reserve Bank of Kansas City, 2007

Poole, William, [“Understanding the Fed,”](http://research.stlouisfed.org/publications/review/07/01/Poole2.pdf) Federal Reserve Bank of St. Louis Review, 2007, January/February, 3-13

Kohn, Donald, “[John Taylor Rules](http://www.bis.org/review/r071019f.pdf),” October 12, 2007

Kohn, Donald, [“Monetary Policy in the Financial Crisis,” in Ciorciari, John and John Taylor, eds., 2009. *The Road Ahead for the Fed*,”](http://media.hoover.org/documents/9780817950019_51.pdf) Hoover Institution Press, Stanford, California, 51-66.

Hamilton, James, [“Concerns about the Fed’s New Balance Sheet,”](http://media.hoover.org/documents/9780817950019_67.pdf) in Ciorciari, John and John Taylor, eds., 2009. *The Road Ahead for the Fed*,” Hoover Institution Press, Stanford, California, 67-84.

Meltzer, Alan, 2009. “Inflation Nation,” *The New York Times*, May 4, p. A19.

Taylor, John, [“The Need for a Clear and Credible Exit Strategy,”](http://media.hoover.org/documents/9780817950019_85.pdf) in Ciorciari, John and John Taylor, eds., 2009. *The Road Ahead for the Fed*,” Hoover Institution Press, Stanford, California, 85-100.

Reis, Ricardo, [“Interpreting the Unconventional U.S. Monetary Policy of 2007-09,”](http://www.columbia.edu/~rr2572/papers/BrookingsM.pdf) *Brookings Papers in Economic Activity*, 2010

Guha, Krishna, [“Fed Study Puts Ideal Interest Rate at -5%,”](http://www.ft.com/cms/s/0/23b62bfc-338b-11de-8f1b-00144feabdc0.html?nclick_check=1) *Financial Times*, April 27, 2009

Taylor, John, [“Systematic Risk and the Role of Government,”](http://www.frbatlanta.org/news/CONFEREN/09fmc/taylor.pdf) speech at the Conference on Financial Innovation and Crises, Federal Reserve Bank of Atlanta, May 12, 2009

Rudebusch, Glenn, [“The Fed’s Monetary Policy Response to the Current Crisis,”](http://www.frbsf.org/publications/economics/letter/2009/el2009-17.pdf) Federal

Reserve Bank of San Francisco *Economic Letter* No. 17, May 22, 2009

Taylor, John, [“Taylor Rule Change Will Hurt Fed’s Inflation Fight,”](http://www.stanford.edu/~johntayl/2009_pdfs/bloomberg-oped-Aug-25-09.pdf) Commentary on Bloomberg.com, August 25, 2009

Dokko, Jane, Brian Doyle, Michael Kiley, Jinill Kim, Shane Sherlund, Jae Sim, and Skander Van den Heuvel, [“Monetary Policy and the Housing Bubble,”](http://www.federalreserve.gov/pubs/feds/2009/200949/200949pap.pdf) manuscript, Federal Reserve Board, December 22, 2009

Bernanke, Ben, [“Monetary Policy and the Housing Bubble,”](http://www.federalreserve.gov/newsevents/speech/bernanke20100103a.htm) speech at the American Economic Association, January 3, 2010

Papell, David, “[Bernanke on the Taylor Rule](http://www.econbrowser.com/archives/2010/01/guest_contribut_6.html),” Econbrowser, January 12, 2010

Taylor, John, “[Getting Back on Track: Macroeconomic Policy Lessons from the Financial Crises](http://research.stlouisfed.org/publications/review/10/05/Taylor.pdf),” Federal Reserve Bank of St. Louis Review, May/June 2010, 165-176

Rudebusch, Glenn, “[The Fed’s Exit Strategy for Monetary Policy](http://www.frbsf.org/publications/economics/letter/2010/el2010-18.html),” Federal Reserve Bank of San Francisco *Economic Letter* No. 17, June 14, 2010

Niklosko-Rzhevskyy, Alex and David H. Papell, 2013, “[Taylor’s Rule versus Taylor Rules](http://www.uh.edu/~dpapell/Taylor%27s%20Rule%20versus%20Taylor%20Rules.pdf),” International Finance, 16:1, 71-93, [slides](file:///C%3A%5CDPapell%27s%20Data%5CDocuments%5CPAP%5CTaylor%27s%20Rule%20Versus%2004-18-12.pptx)

Papell, David, “[The Taylor Rule and QE2](http://www.econbrowser.com/archives/2011/05/guest_contribut_10.html),” Econbrowser, May 5, 2011

Yellen, Janet, “[The Economic Outlook and Monetary Policy](http://www.federalreserve.gov/newsevents/speech/yellen20120411a.htm),” speech at the Money Marketeers of New York University, April 11, 2012

Yellen, Janet, “[Perspectives on Monetary Policy](http://www.federalreserve.gov/newsevents/speech/yellen20120606a.pdf),” speech at the Boston Economic Club Dinner, Federal Reserve Bank of Boston, June 6, 2012

Taylor, John, “[Monetary Policy Rules Work and Discretion Doesn’t: A Tale of Two Eras](http://www.stanford.edu/~johntayl/JMCB%20Lecture%20Published%20Version.pdf),” Journal of Money, Credit, and Banking, 2012, 1017-1032

Xia, Fan Dora and Jing Cynthis Wu, “[Measuring the Macroeconomic Impact of Monetary Policy at the Zero Lower Bound](http://econweb.ucsd.edu/~faxia/pdfs/JMP.pdf),“ unpublished, November 2013

Niklosko-Rzhevskyy, Alex, Prodan, Ruxandra, and David H. Papell, “[(Taylor) Rules versus Discretion in U.S. Monetary Policy](http://www.yahoo.com/),” unpublished, December 2013, [slides](file:///C%3A%5CDPapell%27s%20Data%5CDocuments%5CPAP%5CRules%20versus%20Discretion%20Slides%2002-14-14.pptx)

Taylor, John, “[Monetary Policy and the State of the Economy](http://financialservices.house.gov/uploadedfiles/hhrg-113-ba00-wstate-jtaylor-20140211.pdf),” Testimony before the Committee on Financial Services, U.S. House of Representatives, February 11, 2014