Syllabus

Optimal Monetary Policy - Standard and Robust Approaches

Klaus Adam – University of Mannheim

This course discusses optimal monetary policy design, including the determinants of the optimal inflation target and of the optimal response to economic disturbances. A general familiarity with sticky price models is assumed.

The topics in this course cover the determinants of the optimal inflation target and of optimal stabilization policy. Moreover, we cover the implications of an effective lower bound for nominal rates, the role of supply side heterogeneity, the role of asset prices, and falling natural rates of interest for optimal monetary policy design.

The course discusses Ramsey optimal policies under standard preference specifications and in the presence of robust concerns.

DAY 1

Lecture 1

Determinants of the Optimal Inflation Target – Overview and New Approaches

Schmitt-Grohé, S. and M. Uribe (2010), The Optimal Rate of Inflation, in: Handbook of Monetary Economics, edited by B. M. Friedman and M. Woodford, Volume 3B, 653-722.

Adam, K., and H. Weber (2019), Optimal Trend Inflation, American Economic Review, 2019, Vol. 109(2), 702-737

Lecture 2

Measuring the Optimal Inflation Target

Adam, K., and H. Weber (2020), Estimating the Optimal Inflation Target from Trends in Relative Prices, CEPR Discussion Paper 14335.

Wolman, A. L. (2011), The Optimal Rate of Inflation with Trending Relative Prices, Journal of Money, Credit and Banking, Vol. 43, 355-384.

DAY 2

Lecture 3

Optimal Stabilization Policy with a Lower Bound on Nominal Rates

Adam, K. and R. Billi (2006), Optimal Monetary Policy under Commitment with a Zero Bound on Nominal Interest Rates, Journal of Money, Credit and Banking, 2006.

Adam, K. and R. Billi (2007), Discretionary Monetary Policy and the Zero Lower Bound on Nominal Interest Rates, Journal of Monetary Economics, Vol. 54, 728-752.

Andrade, P. , H. Le Bihan, J. Galí and J. Matheron, The Optimal Inflation Target and the Natural Rate of Interest, *Brookings Papers on Economic Activity*, Fall Issue, 2019

Gali, J., D. Debortoli and L. Gambetti (2019), On the Empirical (Ir)Relevance of the Zero Lower Bound Constraint, *NBER Macroeconomics Annual*, 34, 2019, 141-170

Coibion, O., Y. Gorodnichenko and J. Wieland (2012), The Optimal Inflation Rate in New Keynesian Models: Should Central Banks Raise Their Inflation Targets in Light of the Zero Lower Bound?, Review of Economic Studies, Vol. 79(4), 1371-1406.

L'Huillier, J.P. and R. Schoenle, Raising the Target: How Much Extra Room Does It Really Give?, Brandeis University mimeo, 2019

Nakata, T. (2017), Uncertainty at the Zero Lower Bound, American Economic Journal: Macroeconomics*,* 9 (3): 186-221.

Lecture 4

Robust Approaches to Monetary Stabilization Policy

Adam, Matveev and Nagel (2020), Do Survey Expectations of Returns Reflect Risk Adjustments?, Journal of Monetary Economics (forthcoming).

Adam and Woodford (2012), Robustly Optimal Monetary Policy in a Microfounded New-Keynesian Model, Journal of Monetary Economics, Vol. 59, 468-487.

Karantounias (2013), Managing Pessimistic Expectations and Fiscal Policy, *Theoretical Economics*, Volume 8(1), 193-231.

Hansen and Sargent (2001), Robust Control and Model Uncertainty, American Economic Review, Vol. 91(2), 60-66.

Hansen and Sargent (2008), Robustness, Princeton University Press.

Woodford (2010), Robustly Optimal Monetary Policy with Near-Rational Expectations, American Economic Review, Vol. 100, 274-303.

DAY 3

Lecture 5

Robustly Optimal Monetary Policy and Asset Prices

Adam and Woodford (2020), Robustly Optimal Monetary Policy in a NK Model with Housing, NBER Working Paper No. 26833.

Benigno, P. and L. Paciello (2014), Monetary Policy, Doubts and Asset Prices, Journal of Monetary Economics, Vol. 64, 85-98.

Lecture 6

Monetary Policy Implications of Declining Natural Rates: Robust and Standard Approaches

Adam, Reinelt & Pfäuti (2020), Declining Natural Rates, Rising Housing Price Volatility and the Lower Bound Problem for Monetary Policy, mimeo.