

Monetary Policy | ECP77224

Year	1
ECTS Credits	5
Contact Hours	10 hours of lectures and 5 hours of tutorials
Pre-Requisite	Nil
Semester	2
Module Leader and Lecturer	Professor Vitaliia Yaremko
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Module Outline:

Which is the primary objective of central banks? How do central banks implement their monetary policies? How can monetary policy affect the business cycles? This course will examine the evolution of central bank targets and evaluate different theories attempting to identify optimal monetary policy tools. To do so, we will look at Taylor rules and study a classical monetary model that bases macroeconomic dynamics on microeconomic foundations. It concludes with a discussion of a simple New Keynesian model and review the strengths and weaknesses of this type of model.

Topics covered include:

Lectures:

1. The Barro-Gordon Model
2. The Taylor Rule
3. A Classical Monetary Model
4. The Simplest New Keynesian Model

Tutorials:

1. Problem Set 1: Barro-Gordon Model
2. Problem Set 2: Taylor Rule
3. Problem Set 3: New Keynesian Business Cycle

Module Learning Outcomes:

On completion of the course, students will be able to:

1. Exposit and critically appraise modern theoretical models of the determination of the major macroeconomic variables in light of empirical evidence.
2. Use appropriately the main techniques and methodologies employed in macroeconomic theory.
3. Elucidate the role of money in explaining business cycles under different modelling strategies.

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Assessment:

Assessment for the module is based on a final exam accounting for 70% of the grade. In addition, students will hand in weekly problem sets making up the remaining 30%.

Recommended Reading List:

Readings will be drawn from a selection of academic papers. Overviews of some of the core material covered in the module are provided by:

• *Papers:*

- Barro and Gordon (1983). A Positive Theory of Monetary Policy in a Natural Rate Model, *Journal of Political Economy*.
- Taylor, J. B. (1993). Discretion versus policy rules in practice, *CarnegieRochester Conference Series on Public Policy*

• *Textbooks:*

- Galí, J. (2015). Monetary policy, inflation, and the business cycle: an introduction to the new Keynesian framework and its applications. *Princeton University Press*.
- Walsh, C. E. (2010). Monetary theory and policy, *MIT press*.

