

1 Reading group, Macroeconomics. Topic: Unconventional Monetary Policies

Instructor: Patrizio Tirelli (UNIPV and Griffith) (15 hours, one lecture)

Outline

This Macro Reading group is concerned with unconventional monetary policies in an era of persistently low interest rates. The relevance of the topic for future PhD graduates depends on the widely held belief, in the economics profession and amongst practitioners, that we live in an era of persistently low real interest rates and low inflation expectations. This, in turn, is associated to the perception that even in the US, after 9 years of recovery, the probability of hitting again the ZLB in case of a contractionary episode has dramatically increased.

The first lecture focuses on 3 issues:

- the implications for DSGE models of having short term interest rates at the ZLB;
- the definition of unconventional monetary policy measures (forward guidance, balance sheet policies);
- the main features (and limitations) of DSGE models characterized by non-trivial financial frictions, so that balance-sheet policies can be analyzed;
- the limits to forward guidance;
- fiscal policy role at the ZLB.

The remaining three meetings will be devoted to students presentations of relevant papers. In each meeting all students will be asked to present a paper selected from a list to be agreed with the instructor, and to discuss another presentation. The instructor will provide specific instructions on how presentations should be structured (essentially as "referee reports") and on how to "discuss" the presentations of other fellow students.

By the end of the reading group, students are expected to have

- substantially improved their presentation skills;
- learnt how to identify crucial strengths and weaknesses of selected papers;
- learnt how to derive implications for future research in the field;
- learnt the job of a "discussant"
- enjoyed themselves!

1.0.1 Main references and preliminary readings

Bilbiie, F. O., Monacelli, T., & Perotti, R. (2019). Is government spending at the zero lower bound desirable?. *American Economic Journal: Macroeconomics*, 11(3), 147-73.

Dordal y Carreras, M., Coibion, O., Gorodnichenko, Y., & Wieland, J. (2016). Infrequent but long-lived zero lower bound episodes and the optimal rate of inflation. *Annual Review of Economics*, 8, 497-520.

Campbell, Jeffrey R & Ferroni, Filippo & Fisher, Jonas & Melosi, Leonardo, 2019. "The Limits of Forward Guidance," CEPR Discussion Papers 13612, C.E.P.R. Discussion Papers.

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Christiano, L. J., Eichenbaum, M. S., & Trabandt, M. (2018). On DSGE models. *Journal of Economic Perspectives*, 32(3), 113-40.

Debortoli, D., Galí, J., & Gambetti, L. (2019). On the empirical (ir) relevance of the zero lower bound constraint (No. w25820). National Bureau of Economic Research.

Eggertsson, G.B. and M. Woodford (2003). The Zero Bound on Interest Rates and Optimal Monetary Policy. *Brookings Papers on Economic Activity* 34, 139-235.

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Eggertsson, G. B., Juelsrud, R. E., Summers, L. H., & Wold, E. G. (2019). Negative nominal interest rates and the bank lending channel (No. w25416). National Bureau of Economic Research.

Fernández-Villaverde, J., Gordon, G., Guerrón-Quintana, P., & Rubio-Ramirez, J. F. (2015). Nonlinear adventures at the zero lower bound. *Journal of Economic Dynamics and Control*, 57, 182-204.

Hirose, Y., & Inoue, A. (2016). The zero lower bound and parameter bias in an estimated DSGE model. *Journal of Applied Econometrics*, 31(4), 630-651.

Krishnamurthy, Arvind and Annette Vissing-Jorgensen (2011): "The Effects of Quantitative Easing on Interest Rates," *Brookings Papers on Economic Activity* 43, 215-287.

Wieland, J. F. (2019). Are negative supply shocks expansionary at the zero lower bound?. *Journal of Political Economy*, 127(3), 973-1007.

Wu, J. C., & Xia, F. D. (2016). Measuring the macroeconomic impact of monetary policy at the zero lower bound. *Journal of Money, Credit and Banking*, 48(2-3), 253-291.

Wu, Jing Cynthia and Zhang (2017): "A Shadow Rate New Keynesian Model," NBER working paper 22856