Topics in Macroeconomics II:
Macroeconomic Policy I

2021-2022 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Topics in Macroeconomics III — Code: 32081
- Total credits: 3 ECTS — Workload: 75 hours
- Term: 2nd
- Type of subject: Optative
- Department of Economics and Business
- Teaching Team: Davide Debortoli

2. Teaching guide

- **Introduction**

  The aim of this course is to introduce students to a series of topics in the fiscal and monetary policy literature, with a special focus on the implications of such policies for aggregate economic fluctuations. After reviewing both classical and more recent empirical results, we will discuss the main theoretical approaches to understand the role of taxes, government debt and inflation, both from a positive and a normative perspective. By way of comparison with a benchmark scenario (with complete markets and commitment) we will discuss the role played by distortionary taxes, incomplete financial markets, lack of government commitment, and household heterogeneity.

  This course should to be taken in conjunction with Topics in Macroeconomics III – Macroeconomic Policy II, which is offered simultaneously, and complements the topics and methodologies covered here.

- **Contents**

  Below is an outline of the topics that will be covered, together with a (tentative) list of references for each topic. Additional references will be provided during lectures.

Topic 1: Empirical Evidence on the Fiscal Multiplier (2 lectures)

Alesina, A., C. Favero, and F. Giavazzi (2019): "Effects of Austerity: Expenditure-and Tax-Based Approaches," Journal of Economic Perspectives 33 (2), 141-62.

Auerbach, A. J. and Y. Gorodnichenko (2012): "Fiscal Multipliers in Recession and Expansion," *NBER Chapters* in: Fiscal Policy after the Financial Crisis, 63-98, National Bureau of Economic Research.

Barnichon R., D. Debortoli and C. Matthes (2021): "Understanding the Size of the Government Spending Multiplier: It's in the Sign", *The Review of Economic Studies*, forthcoming.

Blanchard, O. and R. Perotti (2002): "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output," *the Quarterly Journal of economics* 117 (4), 1329--1368.

Ilzetzki, E., Mendoza, E. G. and Végh, C. A. (2013): "How big (small?) are Fiscal Multipliers?," *Journal of Monetary Economics,* 60, 239–54.

Mountford, A. and Uhlig, H. (2009): "What are the Effects of Fiscal Policy Shocks?.," *Journal of Applied* Econometrics, 24, 960-992.

Nakamura, E. and J. Steinsson (2014): "Fiscal Stimulus in a Monetary Union: Evidence from U.S. Regions," *American Economic Review*, 104 (3), 753-92.

Ramey, Valerie A. (2016): "Macroeconomic Shocks and Their Propagation," *Handbook of Macroeconomics*, Elsevier, vol. 2, 71-162.

Ramey, Valerie A. (2019): "Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?," *Journal of Economic Perspectives*, 33 (2): 89-114.

Topic 2: Fiscal Policies, Debt Dynamics and Inflation in Business Cycle Models (2 lectures)

Baxter, M. and R. G. King (1993): "Fiscal Policy in General Equilibrium," *The American Economic Review*, 315-334.

Bianchi, F. (2012): "Evolving Monetary/Fiscal Policy Mix in the United States." *American Economic Review*, 102 (3): 167-72.

Bilbiie, F. O., T. Monacelli and R. Perotti (2013): "Public Debt and Redistribution with Borrowing Constraints," *The Economic Journal*, 123 (566), F64–F98.

D'Erasmo, P., E.G. Mendoza and J. Zhang (2016): "What is Sustainable Public Debt?", in *Handbook of Macroeconomics*, ed. by J. B Taylor and H. Uhlig, ch. 32, vol. 2, 2493-2597.

Galí, J., J. D. López-Salido, and J. Vallés (2007): "Understanding the Effects of Government Spending on Consumption." *Journal of the European Economic Association* 5 (1), 227-270.

Leeper, E.M. and C. Leith (2016): "Understanding Inflation as a Joint Monetary-Fiscal Phenomenon", *Handbook of Macroeconomics*, vol. 2, ch. 30, p. 2305-2415.

Sims, C. A, (1994): "A Simple Model for Study of the Determination of the Price Level and the Interaction of Monetary and Fiscal Policy", *Economic Theory,* 4(3): 381-399.

Woodford, Michael (2011): "Simple Analytics of the Government Expenditure Multiplier." *American Economic Journal: Macroeconomics*, 3 (1): 1-35.

Topic 3: Optimal Fiscal and Monetary Policy: The Basics (2 lectures)

Benigno, P., and M. Woodford (2012): "Linear-Quadratic Approximation of Optimal Policy Problems," *Journal of Economic Theory* 147 (1), 1-42.

Lucas, R. J., and N. L. Stokey (1983): "Optimal fiscal and monetary policy in an economy without capital," *Journal of Monetary Economics*, 12(1), 55–93.

Chamley, C. (1986): "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives," *Econometrica*, 54(3), 607–22.

Chari, V., and P. J. Kehoe (1999): "Optimal fiscal and monetary policy," in *Handbook of Macroeconomics*, ed. by J. B. Taylor, and M. Woodford, vol. 1, chap. 26, pp. 1671–1745. Elsevier.

Judd, K. L. (1985): "Redistributive Taxation in a Simple Perfect Foresight Model," *Journal of Public Economics*, 28(1), 59–83.

Ljungqvist, L., and T. J. Sargent (2004): Recursive Macroeconomic Theory, 2nd Edition, vol. 1, Chapter 15, The MIT Press.

Straub, L. and I. Werning (2020): "Positive Long-Run Capital Taxation: Chamley-Judd Revisited," *American Economic Review*, *110*(1), pp.86-119.

Topic 4: Optimal Fiscal and Monetary Policy: Extensions (4 lectures)

Incomplete Markets, Lack of Commitment, Heterogeneous Agents

Angeletos, G.M. (2002): "Fiscal policy with non-contingent debt and the optimal maturity structure" The Quarterly Journal of Economics, 117(3), pp.1105-1131.

Aiyagari, S. R., A. Marcet, T. J. Sargent, and J. Seppala (2002): "Optimal Taxation without State-Contingent Debt," Journal of Political Economy, 110(6), 1220–1254.

Bhandari, A., D. Evans, M. Golosov, and T.J. Sargent (2017): "Fiscal Policy and Debt Management with Incomplete Markets," *The Quarterly Journal of Economics*, Volume 132, Issue 2, May 2017, Pages 617–663.

Bhandari, A., D. Evans, M. Golosov, and T.J. Sargent (2021) Inequality, Business Cycles, and Monetary-Fiscal Policy," *Econometrica*, forthcoming.

Buera, F. and J.P. Nicolini (2004): "Optimal Maturity of Government Debt without State Contingent Bonds", *Journal of Monetary Economics*, *51*(3), pp.531-554.

Debortoli, D., R. Nunes, and P. Yared (2017): "Optimal Time-Consistent Government Debt Maturity," *The Quarterly Journal of Economics*, 132(1), 55-102.

Debortoli, D., R. Nunes, and P. Yared (2021): "Optimal Fiscal Policy without Commitment: Revisiting Lucas-Stokey," *Journal of Political Economy*, 129(5), 1640-1665.

Klein, P., P. Krusell, and V. Rios-Rull (2008): "Time-Consistent Public Policy," *Review of Economic Studies*, 75(3), 789–808.

Kydland, F. E., and E. C. Prescott (1977): "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy*, 85(3), 473–91.

Nuño, G. and C. Thomas (2020): "Optimal Monetary Policy with Heterogeneous", Working Paper Banco de España.

Schmitt-Grohé, S., and M. Uribe (2004): "Optimal fiscal and monetary policy under sticky prices," *Journal of Economic Theory*, 114(2), 198–230.

- **Teaching methodology**
  Lectures and discussions

- **Assessment and Grading System**
  The grade for this course will be determined on the basis of class participation (10%), an oral discussion/critique of a paper related to the course material (45%), and a short final exam (45%).