



APPLIES TO ACADEMIC YEAR 2012/2013

GRA 6631 Monetary and Fiscal Policy

Programme

Master of Science in Business and Economics, Master of Science in Business and Economics (Economics), Master of Science in Financial Economics, Specialization Course

Responsible for the course

Tommy Sveen

Department

Department of Economics

Term

According to study plan

ECTS Credits

6

Language of instruction

English

Introduction

This course offers an introduction to modern monetary and fiscal policy. The course covers basic graduate material in monetary economics as well as fiscal policy issues.

Learning outcome

The first part of the course gives the participants an overview of the literature on monetary business cycle analysis. To this end it develops the canonical New Keynesian sticky-price model, which has emerged as the workhorse for monetary policy analysis. Important topics are the so-called New Keynesian Phillips curve and the forward-looking nature of inflation and their implication for the design of monetary policy.

The second part of the course deals with fiscal policy and covers theoretical models as well as empirical facts. Important topics are the fiscal multiplier, tax smoothing and the financing of public debt.

The course sets high requirements for student involvement for successful completion of the course. At the end of the course, the students are expected to make a group presentation on a given topic related to a monetary or fiscal policy issue.

Prerequisites

GRA 6634 Introduction to Advanced Macroeconomics (or a similar graduate introduction to macroeconomics).

Compulsory reading

Books:

Romer, David H. 2012. *Advanced macroeconomics*. 4th ed. McGraw-Hill/Irwin. Selections from Chapters 6,7, 11 and 12

Articles:

Christiano, Lawrence, Martin Eichenbaum, and Sergio Rebelo. 2011. "When is the Government Spending Multiplier Large?". *Journal of Political Economy* 119(1), 78-121

Clarida, Gali and Gertler. 1999. "The Science of Monetary Policy: A new Keynesian perspective". *Journal of Economic Literature* 37 (4), 1661-1707

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

Thøgersen, Øystein. 1998. A Note on Intergenerational Risk Sharing and the Design of Pay-as-you-go Pension Programs. *Journal of population economics*. Vol 11. p . 373-378

Other:

During the course there may be hand-outs and other material on additional topics relevant for the course and the examination

Walsh, Carl E. 2010. *Monetary theory and policy*. 3rd ed. MIT Press. Selections from chapters

1 and 11, will be distributed in class

Recommended reading

Books:

Walsh, Carl E. 2010. Monetary theory and policy. 3rd ed. MIT Press. Chapters 1,7,8 and 11

Course outline

Part I: Monetary policy

1. Introduction: Operating procedures in monetary policymaking. The monetary transmission mechanism.
2. The dynamic inconsistency of low inflation
3. The canonical new Keynesian model
4. Monetary policy in the new Keynesian model

Part II: Fiscal policy

1. The fiscal multiplier and the short-run effects of fiscal policy shock on output and consumption
2. Financing public debt and optimal taxation.

Computer-based tools

It's learning/ homepage

Learning process and workload

A course of 6 ECTS credits corresponds to a workload of 160-180 hours. Both lectures and exercise seminars are provided.

Please note that while attendance is not compulsory in all courses, it is the student's own responsibility to obtain any information provided in class that is not included on the course homepage/It's learning or text book.

Examination

A group project/presentation (graded pass/fail) and written final exam (3 hours)

All parts of the assessment must be passed in order to obtain a final grade in the course.

Specific information regarding student evaluation beyond the information given in the course description will be provided in class. This information may be relevant for requirements for tempapers or other hand-ins, and/or where class participation can be one of several elements of the overall evaluation.

This is a course with continuous assessment (several exam elements) and one final exam code. Each exam element will be graded using points on a scale (e.g. 0-100). The elements will be weighted together according to the information in the course description in order to calculate the final letter grade for the course. You will find detailed information about the point system and the cut off points with reference to the letter grades on the course site in It's learning.

Examination code(s)

GRA 66311 accounts for 100 % of the final grade in the course GRA 6631.

Examination support materials

Bilingual dictionary. Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary.
<http://www.bi.edu/studenthandbook/examaids>

Re-sit examination

It is only possible to retake an examination when the course is next taught.

The assessment in some courses is based on more than one exam code.

Where this is the case, you may retake only the assessed components of one of these exam codes.

Where this is not the case, all of the assessed components of the course must be retaken.

All retaken examinations will incur an additional fee.

Additional information

Honor Code

Academic honesty and trust are important to all of us as individuals, and represent values that are

encouraged and promoted by the honor code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honor code system, to which the faculty are also deeply committed.

Any violation of the honor code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academic integrity. If you have any questions about your responsibilities under the honor code, please ask.