

Central Bank Watching

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Course Objective

This course is about Central Banks, their activities, their mandate, their policy role, and their relationships with governments and other public authorities. For a few decades, there was broad consensus about Central Banks missions, instruments and institutional framework. Monetary policy was well defined in its theory, its strategy, objectives and instruments. Central banking is now going through a transition. The financial crisis has forced Central Banks into unprecedented interventions both in nature and magnitude. It has brought back their historical responsibility as guardians of financial stability. It has exposed them to criticism and challenges to their expertise and questions to their independence. The purpose of this course is to provide an understanding of the purposes and functions of central banks and the challenges they confront.

Course Description

First sessions are devoted to a general presentation of the course/seminar. Next sessions are devoted to paper presentations by students.

Grading:

Presentation: 70 percent.

Central Bank Newsflow: 30 percent.

Topic 1. The Monetary Transmission Mechanism

- Boivin, J., Kiley, M.T. and F.S. Mishkin (2010), “How Has the Monetary Transmission Mechanism Evolved Over Time?”, *NBER Working Paper No. 15879*, National Bureau of Economic Research.
- European Central Bank (2010), “Monetary Policy Transmission in the Euro Area, A Decade After The Introduction Of The Euro”, *ECB Monthly Bulletin*, May.
- Angeloni, I., Kashyap, A.K., Mojon B. and D. Terlizzese (2003), “Monetary Transmission in the Euro Area: Does the Interest Rate Channel Explain All?”, *NBER Working Paper No. 9984*, National Bureau of Economic Research.
- Bernanke, B. and M. Gertler (1995), “Inside the Black Box: The Credit Channel of Monetary Transmission”, *Journal of Economic Perspectives* 9, 27-48.

Topic 2. Monetary Policy: Policy Rules, Optimal Policy and Model for Policy Analysis

- Clarida, R., J. Gali, and M. Gertler (1999), “The Science of Monetary Policy: A New Keynesian Perspective”, *Journal of Economics Literature* 37, 1661–1707.
- Lawrence, J.C., Trabandt, M. and K. Walentin (2010), “DSGE Models for Monetary Policy Analysis”, *NBER Working Papers N° 16074*, National Bureau of Economic Research
- Svensson, L.E.O. (2010), “Inflation Targeting”, in B.M. Friedman and M. Woodford, eds., *Handbook of Monetary Economics*, volume 3, Amsterdam: North-Holland, 1237-1302.
- Taylor, J. B., and J. C. Williams (2010), “Simple and Robust Rules for Monetary Policy” in B.M. Friedman and M. Woodford, eds., *Handbook of Monetary Economics*, volume 3, Amsterdam: North-Holland, 829–59.

Topic 3. Inflation Dynamics

- Blanchard, O.J. and J. Gali (2007), “The Macroeconomic Effects of Oil Shocks: Why are the 2000s So Different from the 1970s?”, *NBER Working Paper No. 13368*, National Bureau of Economic Research.
- Chauvet, M. and I. Kim (2010), “Microfoundations of Inflation Persistence in the New Keynesian Phillips Curve”, *CQER Working Paper 2010-05*, Federal Reserve Bank of Atlanta.
- Clark, T.E. and S.J. Terry (2011), “Time Variation in the Inflation Passthrough of Energy Prices”, *Journal of Money, Credit and Banking* 42(7), 1419-1433.
- Erceg, C.J. and A.T. Levin (2003), “Imperfect Credibility and Inflation Persistence”, *Journal of Monetary Economics* 50(4), 915-944.
- Fuhrer, J.C. (2010), “Inflation Persistence”, in B.M. Friedman and M. Woodford, eds., *Handbook of Monetary Economics*, volume 3, Amsterdam: North-Holland, 423-486.
- Galí, J. and M. Gertler (1999), “Inflation Dynamics: A Structural Econometric Analysis”, *Journal of Monetary Economics* 44(2), 195-222.
- Mishkin F.S. (2007), Inflation Dynamics, *NBER Working Paper N° 13147*, National Bureau of Economic Research.
- Stock J.H. and M.W. Watson (2010), Modeling Inflation After the Crisis, *NBER Working Paper N° 16488*, National Bureau of Economic Research.

Topic 4. Monetary Policy in Emerging Markets

- Eichengreen, B. (2013), “Does the Federal Reserve Care about the Rest of the World?”, *Journal of Economic Perspectives* 27(4), 87-104.
- Fraga, A., Goldfajn, I. and A. Minella (2003), Inflation Targeting in Emerging Market Economies, *NBER Working Paper N° 10019*, National Bureau of Economic Research.
- Frankel, J.A. (2010), “Monetary Policy in Emerging Markets: A Survey”, *NBER Working Paper N° 16125*, National Bureau of Economic Research.

- Rey, H. (2013), “Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence”, paper presented at the Jackson Hole Symposium, August 2013. Available at <http://www.kansascityfed.org/publications/research/escp/escp-2013.cfm>

Topic 5. The Zero Bound on Interest Rates and the Liquidity Trap

- Campbell, J., C. Evans, J. Fisher and A. Justiniano (2012), “Macroeconomic Effects of Federal Reserve Forward Guidance”, *Brookings Papers on Economic Activity* 1, 1-80.
- Cúrdia, V. and M. Woodford (2011), “The Central-Bank Balance Sheet as an Instrument of Monetary Policy”, *Journal of Monetary Economics* 58(1), 54-79.
- 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.
- Svensson, L.E.O (2014), Forward Guidance, *NBER Working Paper N° 20796*, National Bureau of Economic Research.
- Werning, I. (2011), “Managing a Liquidity Trap: Monetary and Fiscal Policy,” National Bureau of Economic Research, *NBER Working Paper N° 17344*, National Bureau of Economic Research.
- Woodford, M. (2012), “Methods of Policy Accommodation at the Interest-Rate Lower Bound”, speech delivered at the Federal Reserve Bank of Kansas City Economic Symposium, held in Jackson Hole, WY, August 30 – September 1, 2012.
- Woodford, M. (2013), “Forward Guidance by Inflation-Targeting Central Banks”, mimeo prepared for the conference “Two Decades of Inflation Targeting: Main Lessons and Remaining Challenges”, Sveriges Riksbank, June 3, 2013.
- Wu, J.C. and F.D Xia (2014), Measuring the Macroeconomic Impact of Monetary Policy at the Zero Lower Bound, *NBER Working Paper N° 20117*, National Bureau of Economic Research.

Topic 6. Monetary Policy and Asset Prices

- Adrian, T. and H.S. Shin (2011), “Financial Intermediaries and Monetary Economics”, in B.M. Friedman and M. Woodford, eds., *Handbook of Monetary Economics*, volume 3, Amsterdam: North-Holland, 601-650.
- Angelini, P., Neri, S. and F. Panetta (2012), “Monetary and Macroprudential Policies”, *ECB Working paper N°1449*.
- Bernanke, B.S. and Ma. Gertler (2001), “Should Central Banks Respond to Movements in Asset Prices?”, *American Economic Association Papers and Proceedings* 91(2), 253-257.
- Cecchetti, S., H. Genberg, J. Lipsky and S. Wadhvani (2000), “Asset Prices and Monetary Policy”, Report prepared for the conference Central banks and asset prices, organised by the International Centre for Monetary and Banking Studies, Geneva, May.
- De Paoli, B. and M. Paustian (2013), « Coordinating Monetary and Macroprudential Policies », *Staff Report N° 653*, Federal Reserve Bank of New York Staff Reports.
- Evans, C.L., (2012), “Monetary Policy in a Low-Inflation Environment: Developing a State-Contingent Price-Level Target”, *Journal of Money, Credit and Banking* 44, 147-155.
- Lettau, M. and S. Ludvigson (2003), “Understanding Trend and Cycle in Asset Values: Reevaluating the Wealth Effect on Consumption”, *NBER Working paper N° 9848*, National Bureau of Economic Research.
- Vasco, C. & M. Woodford, (2010), “Credit Spreads and Monetary Policy”, *Journal of Money, Credit and Banking* 42(1), 3-35.

Topic 7. Robust Monetary Policy

- Giannoni, M.P (2007), “Robust Optimal Monetary Policy in a Forward looking Model With Parameter and Shock Uncertainty”, *Journal of Applied Econometrics* 22, 179-213.
- Klaus, A. and M. Woodford (2012), “Robustly optimal monetary policy in a microfounded New Keynesian model”, *Journal of Monetary Economics* 59(5), 468-487.
- Levin, A.T. and J.C. Williams (2003), “Robust monetary policy with competing reference

models”, *Journal of Monetary Economics* 50(5), 945-975.

- Mishkin, F.S. (2008), “Monetary Policy Flexibility, Risk Management, and Financial Disruptions”, Speech at the Federal Reserve Bank of New York, New York, January 11.
- Pirozhkova, E. (2013), “Financial Frictions and Robust Monetary Policy in the models of New Keynesian framework”, mimeo Birkbeck College, University of London.
- Taylor, J.B and J.C Williams (2010), “Simple and Robust Rules for Monetary Policy”, *NBER Working paper N° 15908*, National Bureau of Economic Research.

Essential References

- Gali, J. (2008), *Monetary Policy, Inflation and the Business Cycle*, Princeton University Press, 224 pages.
- Mishkin, F. (2009), *Monetary Policy Strategy*, The MIT Press, 560 pages.
- Walsh, C.E. (2003), *Monetary Theory and Policy*, Second Edition, The MIT Press, Cambridge, MA.
- Woodford, M. (2003), *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, 8080 pages.

Lecturer

Pr. Christophe Boucher is an Agrégé Professor in Economics and Finance at the University of Paris Nanterre. He is also CIO - Head of Quantitative Research & Strategy within ABN AMRO Investment Solutions. He graduated in Economics and in Finance, and holds a PhD in Economics in 2006 (“Misalignments, Aggregated Returns and Aggregated Volatility”). He has published several comments in newspapers and articles in academic journals such as *Journal of Banking and Finance*, *Economics Letters*, *Finance* and serves as a referee in several international leading journals. His interest mainly concerns strategic/tactical allocation, predictability of returns and volatility, asset pricing, monetary policy and macroeconomics. He received the “Young Economist Award” in 2006 from the European Economic Association (EEA) and the “Young Researcher in Economics Prize” from the Banque de France Foundation in 2010.