

Summer term 2020

## Monetary theory

### Time and venue

The class takes place on Friday from 12 am to 2 pm. Exercises are scheduled as a 45 min exercise afterwards, but it might be preferable to have 90 min exercises on a bi-weekly basis. The class will take place using WebEx. All the specifics will be announced.

### Course summary

This class takes place in times when the world economy faces most likely one of the deepest recessions within the last hundred years. This class will therefore not be business as usual. Instead, we will try to cover and discuss the challenges to the monetary authorities that follow from the crisis. First, the central bank has to stabilize the economy and fight the recession. Second, the authorities have to carefully watch the financial sector to prevent the crisis becoming another financial crisis. Third, inequality moved more and more into the focus of attention. Thus, central banks have to take the consequences of monetary policy into account as well as the role income and wealth inequality play for the transmission of monetary policy. Finally, the crisis leads to a large build-up of public debt. Which role can or will the central bank play in reducing the debt burden?

In order to address these questions, we will start by talking about the nature of money and how the central bank relates to it. We will look at what monetary policy is and how it affects the economy. Here, we pay special attention to the role of the financial sector and inequality. Afterwards, we investigate whether monetary policy has learned its lessons from the financial crisis of 2007/08. Finally, we consider the relationship between the monetary authority and the fiscal authority. Can monetary policy be used to reduce the amount of public debt?

Important disclaimer: the name of the class is monetary theory because it is a pre-determined condition. We will find it useful however to look at data and work with data during the class. Monetary economics would be a more fitting title.

### Course overview

#### Part 1: The nature of money

What is money and why has it value?

History of money

How to model money in macro-model?

#### Part 2: Monetary policy

What do central banks do?

How does monetary policy affect the economy (and how can we estimate it)?

What is the role of the financial sector?

Does income and wealth inequality matter for monetary policy?

Monetary policy in times of Covid-19 – discussion of monetary policy programs

### **Part 3: Monetary and fiscal interactions**

Monetary policy as the solution to high sovereign and private debt levels?

### **Exercises**

Exercises will be hands-on and asking you to solve DSGE models and especially to work with data in Stata.

### **Prerequisites**

Knowledge in econometrics, macroeconomics and some knowledge of Stata will be helpful throughout the class.

### **Grading**

Class participation (20%) and the presentation of solutions to the exercises during class (30%). The final exam counts for 50% and will be a take-home exam.

### **Required readings**

Required readings will be announced soon.