

## Summer Semester 2021

# Monetary and Fiscal Policy

### Course Instructor

Prof. Evi Pappa

Universidad Carlos III de Madrid

Bundesbank Guest-Professorship

### Dates

Block Course from June 14 to 24, 2021  
(online)

Date	Weekday	Lectures	Exercises
<b>Week #1</b>			
June 14	Monday	09:00 – 10:30 11:00 – 12:00	14:00 – 15:00
June 15	Tuesday	09:00 – 10:30 11:00 – 12:00	14:00 – 15:00
June 16	Wednesday	09:00 – 10:30 11:00 – 12:00	14:00 – 15:00
<b>Week #2</b>			
June 21	Monday	09:00 – 10:30 11:00 – 12:00	14:00 – 15:00
June 22	Tuesday	09:00 – 10:30 11:00 – 12:00	14:00 – 15:00
June 23	Wednesday	09:00 – 10:30 11:00 – 12:00	14:00 – 15:00
June 24	Thursday	09:00 – 10:30 11:00 – 12:00	--

### Eligibility and Credits

Students of the following programs are eligible to enroll in the course: Master of Economics and Master of Public Economics ( 6 ECTS)

## Course Program

The course should cover recent developments in the identification of monetary and fiscal policy shocks. It will provide students with tools to perform relevant research on the propagation of monetary and fiscal policy.

Students should be familiar with MATLAB in order to be able to follow the exercises. The class will involve both lectures and practical sessions, which will be held online as live sessions and simultaneously recorded for later viewing on Blackboard.

## Exam

Take-home exam to be handed in two to three weeks after final lecture (deadline and further details will be specified at the start of the course)

## Preliminary Course Structure

### Monetary Part Week 1:

The first part of the course is designed to help the students identify how money affects the real economy. We start by looking at evidence on the relation between monetary and real aggregates and continue by investigating the role of monetary policy shocks as a source of business cycle fluctuations and their macroeconomic effects.

The course will cover the developments in the identification of monetary policy shocks in the data since the seminal work of Christiano Eichenbaum and Evans till nowadays. The themes covered are:

1. The relation between monetary and macro aggregates
2. Identifying monetary policy shocks – Structural Vector Autoregressions
3. Cholesky and Sign restrictions identification
4. The Narrative Approach
5. Proxy SVAR
6. Local Projections, Heterogenous effects of monetary policy
7. The informational component of monetary policy

### Fiscal Part Week 2:

The second part of the course is designed to help students learn about the most topical issues of fiscal policy with a particular focus in the European context and about the identification of fiscal shocks in the data and its policy relevance. Using the techniques developed in the first part of the course we will study the following topics:

1. Fiscal Policy in the Euro Area: Historical background, descriptive part of the fiscal stance of different countries in Europe and the Euro Area as a whole, present asymmetries, countries performance relative to Stability and Growth Pact and recent monetary policy restrictions (The Zero Lower Bound)
2. The history of fiscal rules, their desirability, and possible revisions.

3. Fiscal multipliers and the ability of fiscal policy to stimulate the economy in different economic environments.
  - a. *fiscal policy as a complement to monetary policy.*
  - b. *discretionary fiscal stimulus and non-linear effects of fiscal policy at ZLB, expansions vs. recessions etc.*
  - c. *Composition of fiscal stimulus, the effects of different fiscal tools. Which instrument to use? Tax cuts versus transfers of government spending.*
  - d. *Spillover effects. Discuss coordination of fiscal policy across countries.*
  
4. Assessing the effectiveness of the EU recovery plan and the ability of fiscal policy to react to natural disasters.