

Duke University
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Macroeconomic Theory (Econ 210)

Micro-founded dynamic general equilibrium models have become the standard tool for macroeconomic analysis. This course will provide some guidance on how to work with these models. Our baseline New Keynesian model will feature sticky prices combined with monopolistic competition. That framework has emerged as a powerful tool for monetary policy analysis. Its adoption as the backbone of medium-scale models currently developed by central banks and policy institutions is a clear reflection of its success. We will start by deriving the aggregate behavioral equations implied by our baseline model and we will solve for the resulting rational expectations equilibrium (DYNARE (<http://www.cepremap.cnrs.fr/dynare/>) will be used at this step). We will then show that our baseline model is appealing on empirical grounds. This builds up confidence to bring the theory to bear on questions related to the optimal design of policy and we will discuss some of the main normative conclusions. Next we will study some extensions of the baseline model that help overcome some of its problematic aspects. In particular, we will pay some attention to the role of capital accumulation for inflation and output dynamics as well as for the desirability of alternative arrangements for the conduct of monetary policy.

Overview Articles

Richard Clarida, Jordi Galí and Mark Gertler (1999): “The Science of Monetary Policy: A New Keynesian Perspective”, *Journal of Economics Literature*, Vol. XXXVII, December 1999, 1661-1707.

Jordi Galí (2003): “New Perspectives on Monetary Policy, Inflation, and the Business Cycle”, in: *Advances in Economic Theory*, edited by: M. Dewatripont, L. Hansen, and S. Turnovsky, vol. III, 151-197, Cambridge University Press.