

**Monetary Theory and Policy**  
**Economics 212 Part 2**  
**Professor John B. Taylor, Stanford University, Spring Quarter 2013**

This short course is primarily about Monetary Theory and Policy. The goal is to learn how to

- Document the facts that monetary theory must explain using empirical impulse response functions and their associated vector auto-regressions.
- Solve forward looking monetary models and thereby calculate the quantitative impact of monetary shocks on output, the inflation rate, the interest rate, and the exchange rate.
- Draw key monetary policy implications of the Lucas critique and time inconsistency.
- Work with and understand the dynamic macro implications of staggered price setting models.
- Determine the impact of monetary policy on the term structure of interest rates.
- Evaluate alternative monetary policy rules in new Keynesian models.
- Make assessments about the practical relevance of these ideas for monetary policy today.

Here are the readings for the course:

***Background on Monetary Policy Today***

- Yellen, Janet (2012), “The Economic Outlook and Monetary Policy,” <http://www.federalreserve.gov/newsevents/speech/yellen20120411a.pdf> (pp. 11-20)
- Taylor, John B. and John C. Williams (2011), “Simple and Robust Rules for Monetary Policy,” in Benjamin M. Friedman and Michael Woodford, eds., *Handbook of Monetary Economics*, vol. 3B, pp. 829-60. (posted on [Coursework](#))

***Observing Monetary Phenomena with Multivariate Time Series Methods***

- Stock, James and Mark Watson (2001), “Vector Autoregressions,” *Journal of Economic Perspectives*, Vol. 15, No. 4 101-115.

***Impact of Monetary Policy Shocks—Anticipated and Unanticipated—Open and Closed Economies***

- Taylor, John B. (1993), *Macroeconomic Policy in a World Economy*, pp. 9-29  
<http://www.stanford.edu/~johntayl/MacPolBk/chap1.pdf>

***The Lucas Critique, Time Inconsistency and the Case for Monetary Policy Rules***

- Lucas, Robert E. (1976), “Econometric Policy Evaluation: A Critique,” *Carnegie-Rochester Conference Series on Public Policy*, Volume 1. (Posted on [Coursework](#))
- Kydland, Finn and Edward Prescott (1977), “Rules Rather than Discretion: The Inconsistency of Optimal Plans,” *Journal of Political Economy*, pp. 619-637.

***Staggered Wage and Price Setting***

- Taylor, John B. (1999), “Staggered Price and Wage Setting in Macroeconomics” in J. B. Taylor and M. Woodford (Eds.) *Handbook of Macroeconomics*, Elsevier (Posted on [Coursework](#))
- Klenow, Peter and Oleksiy Kryvtsov (2008), “State Dependent versus Time Dependent Pricing,” *Quarterly Journal of Economics*, August, Vol. 72, No 2, 863-904

***Monetary Policy and the Term Structure of Interest Rates***

- Smith, Josephine and John B. Taylor (2009) “The Term Structure of Policy Rules,” *Journal of Monetary Economics*, 56, pp. 907-917

***Evaluating Monetary Policy Rules***

- Ball, Lawrence (1999) “Efficient Rules for Monetary Policy,” *International Finance*, Vol. 2, pp. 63-83.
- Woodford, Michael (2001), “The Taylor Rule and Optimal Monetary Policy,” *American Economic Review, Papers and Proceedings*, Vol. 91, No. 2, pp. 232-7.
- David Reifschneider and John C. Williams (2000), “Three Lessons for Monetary Policy in a Low-Inflation Era,” *Journal of Money, Credit, and Banking*, vol. 32 (November), pp. 936-66.