

# Monetary Policy

Professor Dr. Maik Wolters

## Overview

The purpose of this course is to gain a thorough understanding of monetary policy. Besides core monetary policy topics, we will devote quite a bit of time to discuss current challenges of monetary policy. Topics in this regard range from the zero lower bound on nominal interest rates, the reasons for hitting the zero lower bound, the ensuing usage of Quantitative Easing, the impact of decreasing inflation expectations, and the possibility to transition into a permanent zero interest rate equilibrium. We will discuss practical aspects of monetary policy that should be helpful for understanding policy debates and for assessing current macroeconomic developments. We will develop a macroeconomic framework that is a simplified version of the models used at central banks. We will use this framework throughout the course to understand the goals of monetary policy, its instruments, and transmission as well as its limits. Overall, the course aims at building a bridge between economic theory and the reality of practical economic policymaking. Students learn a conceptual framework to address real-life macroeconomic developments and monetary policy issues. The course will mainly abstract from open economy aspects. These are subject of the ensuing course on International Money and Finance in the summer term.

## Topics:

### Part 1: Basic Macroeconomic Concepts

- Lecture 1: Output, Potential Output, and the Output Gap
- Lecture 2: The Long Run: Solow Model, Equilibrium Unemployment, Quantity Theory
- Lecture 3: The Short Run: The IS-MP-PC Model

### Part 2: Conventional Monetary Policy

- Lecture 4: Monetary Policy Framework, Optimal Rate of Inflation, Inflation Targeting
- Lecture 5: Monetary Policy Rules, The Complete IS-MP-PC Model
- Lecture 6: Solving the IS-MP-PC Model, Rational Expectations, Time-Inconsistency, and Credibility

### Part 3: Monetary Policy at the Zero Lower Bound on Nominal Interest Rate

- Lecture 7: Monetary Policy Transmission, Zero Lower Bound in the IS-MP-PC model
- Lecture 8: Unconventional Monetary Policy, Natural Interest Rate, Zero Interest Equilibrium

### Part 4: Monetary and Fiscal Interactions

- Lecture 9: Fundamental Connections Between Monetary and Fiscal Policy
- Lecture 10: Fiscal Policy and the ZLB

### Part 5: Financial Stability (if time permits)

## Target Group

This course targets a wide audience. The course is not only interesting for economics students, but also for business students who want to understand how monetary policy and macroeconomic developments in general affect companies or financial markets and for students with other backgrounds (for example politics, sociology, etc.) who are interested in acquiring basic knowledge and learning tools for understanding and participating in current policy debates.

## Time and date:

- Lecture (Maik Wolters): Monday 10.15 - 11.45 am.
- Exercise (Dominik Hecker and Josefine Quast): Friday 12.15 – 13.45 pm.

### **Elective / Compulsory**

- M.Sc. International Economic Policy: This course counts towards to the Core Electives and Electives.
- M.Sc. Management: This course counts towards the Subject Monetary Policy and the Electives.
- Other study programs: Please get in contact with us if you are unsure whether this course is eligible for your program.

### **Remote Teaching**

The course will be taught via Zoom in the Winter term 21/22. To encourage interaction and an active discussion, videos are not pre-recorded, but teaching will be live during the announced lecture times. Recorded versions of the lectures will be uploaded afterwards.

### **Prerequisites**

Basic knowledge on Macroeconomics and Microeconomics on the Bachelor level would be helpful.

### **Literature**

There is no core textbook, but the course builds on different sources. These are announced at the beginning of each lecture. Most of them are available online. I do not have a separate script for this course, yet, but the slides are very detailed, so that they should serve as a script for this course.

### **Course Material Availability**

All material will be available on WueCampus.

### **Exercise Session**

The course includes a weekly exercise session. Students are encouraged to attend lectures and the exercise sessions.

### **Exam**

There will be a final exam. There will also be a mock exam, so that there is as much transparency as possible and no surprise regarding the questions types and the structure of the final exam.

### **Office Hour**

Prof. Wolters and his Teaching Assistants offer regular office hours. Please register via email in advance. We will also remain online for 15 minutes or so after each lecture for discussions and questions.