

BOSTON COLLEGE
Department of Economics

EC 862, Module A
Monetary Economics II
Spring 1999

Joe Peek
Off. Hrs: TTh 1:00-2:30 pm
and by appointment

OVERVIEW OF COURSE REQUIREMENTS

This is the first module of EC862. While the two modules will be self contained, you will be required to complete a research paper during the semester that will span the two modules. You are welcome to consult with either Fabio or me at any time during the semester for advice on your research paper. Your course grade will be determined as a weighted average of your grades for each of the two modules (1/3 each) and for the research paper (1/3).

Your grade for this module will be based on an exam over the first module material to be given at the end of the module. In addition, you will have the following deadlines associated with the research paper.

Tuesday, February 9	First progress report -brief presentation on topic
Thursday, March 11	Second progress report

**I will place a folder with a set of master copies of the articles on the reading list in the mail room (C136) on the top shelf above the table. After making a copy for yourself, please quickly return the master copy to the folder for others to use.

OUTLINE

I. Measuring Monetary Policy

- Christina Romer and David Romer, "Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz," in O. Blanchard and S. Fischer, eds., NBER Macroeconomics Annual, Cambridge, MA: MIT Press, 1989, 121-69.
- Eric M. Leeper, "Narrative and VAR Approaches to Monetary Policy: Common Identification Problems," Journal of Monetary Economics, 1997, 641-57.
- Ben S. Bernanke, "On the Predictive Power of Interest Rates and Interest Rate Spreads," New England Economic Review, Nov./Dec. 1990, 51-68.
- Benjamin M. Friedman and Kenneth N. Kuttner, "Why Does the Paper-Bill Spread Predict Real Economic Activity?," in James H. Stock and Mark W. Watson, eds., New Research on Business Cycle Indicators and Forecasting, Chicago: University of Chicago Press, forthcoming.
- Benjamin M. Friedman and Kenneth N. Kuttner, "Money, Income, Prices, and Interest Rates," American Economic Review, June 1992, 472-92.
- Ben S. Bernanke and Ilian Mihov, "Measuring Monetary Policy," NBER WP #5145, June 1995.

II. Implementing Monetary Policy

A. Discretionary Monetary Policy

- Christina D. Romer and David H. Romer, "Federal Reserve Private Information and the Behavior of Interest Rates," NBER Working Paper No. 5692, July 1996.
- Joe Peek, Eric Rosengren, and Geoffrey Tootell, "Does the Federal Reserve Have an Informational Advantage? You Can Bank on It," manuscript, May 1998.
- Carl E. Walsh, "A Primer on Monetary Policy Part I: Goals and Instruments," FRBSF Weekly Letter, August 5, 1994.
- Carl E. Walsh, "A Primer on Monetary Policy Part II: Targets and Indicators," FRBSF Weekly Letter, August 19, 1994.

B. Central Banking--Politics and the Fed

- Susan Belden, "Policy Preferences of FOMC Members as Revealed by Dissenting Votes," Journal of Money, Credit, and Banking, November 1989, 432-41.
- Henry Chappell, Thomas Havrilesky and Rob McGregor, "Partisan Monetary Policies: Presidential Impact Through the Power of Appointment," Quarterly Journal of Economics, February 1993, 185-218.
- Geoffrey M. B. Tootell, "Appointment Procedures and FOMC Voting Behavior," Southern Economic Journal, July 1996, 191-204.
- Geoffrey M. B. Tootell, "Reserve Banks, the Discount Rate Recommendation, and FOMC Policy," FRB Boston Working Paper No. 96-11.
- Geoffrey M. B. Tootell, "Whose Monetary Policy Is It Anyway?" Journal of Monetary Economics, forthcoming.
- Carl Walsh, "Public Preferences and Inflation," FRBSF Weekly Letter, August 30, 1991.
- Christina D. Romer and David H. Romer, "Institutions for Monetary Stability," NBER Working Paper No. 5557, May 1996.

C. Describing Monetary Policy

- Richard Clarida, Jordi Gali, and Mark Gertler, "Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory," C.V. Starr Center for Applied Economics RR# 98-01, January 1998.
- John P. Judd and Glenn D. Rudebusch, "Taylor's Rule and the Fed: 1970-1997," FRB San Francisco Economic Review, No. 3, 1998, 3-16.
- Richard Clarida, Jordi Gali, and Mark Gertler, "Monetary Policy Rules in Practice: Some International Evidence," NBER Working Paper No. 6254, November 1997.

D. Inflation Targeting

- Glenn D. Rudebusch and Carl E. Walsh, "U.S. Inflation Targeting: Pro and Con," FRBSF Economic Letter, May 29, 1998.
- Ben S. Bernanke and Frederic S. Mishkin, "Inflation Targeting: A New Framework for Monetary Policy?" Journal of Economic Perspectives, 11 (2), Spring 1997, 97-116.
- Daniel L. Thornton, "The Costs and Benefits of Price Stability: An Assessment of Howitt's Rule," FRB-St. Louis Review, March/April 1996, 23-38.
- Bharat Trehan, "The Credibility of Inflation Targets," FRBSF Weekly Letter, January 6, 1995.

John P. Judd, "Inflation Goals and Credibility," FRBSF Weekly Letter, May 12, 1995.

Michael Hutchinson, "Central Bank Credibility and Disinflation in New Zealand," FRBSF Weekly Letter, February 10, 1995.

S. Rao Aiyagari, "Deflating the Case for Zero Inflation," FRB of Minneapolis Quarterly Review, Summer 1990, 2-11.

III. Monetary Policy Transmission

A. Money View vs. Lending View

Ben S. Bernanke and Mark Gertler, "Inside the Black Box: The Credit Channel of Monetary Policy Transmission," Journal of Economic Perspectives, 9 (4), Fall 1995, 27-48.

Allan H. Meltzer, "Monetary, Credit and (Other) Transmission Processes: A Monetarist Perspective," Journal of Economic Perspectives, 9 (4), Fall 1995, 49-72.

R. Glenn Hubbard, "Is There a 'Credit Channel' for Monetary Policy?" FRB St. Louis Review, May/June 1995, 63-77.

Stephen G. Cecchetti, "Distinguishing Theories of the Monetary Transmission Mechanism," FRB St. Louis Review, May/June 1995, 83-97.

Ben S. Bernanke and Alan S. Blinder, "Credit, Money, and Aggregate Demand," American Economic Review, May 1988, 435-39.

Anil K. Kashyap and Jeremy C. Stein, "Monetary Policy and Bank Lending," in N. Gregory Mankiw, ed., Monetary Policy, University of Chicago Press, 1994, 221-61.

Christina D. Romer and David H. Romer, "New Evidence on the Monetary Transmission Mechanism," Brookings Papers on Economic Activity, Vol. 1, 1990, 149-213.

Ben S. Bernanke and Alan S. Blinder, "The Federal Funds Rate and the Channels of Monetary Transmission," American Economic Review, September 1992, 901-21.

Anil Kashyap, Jeremy Stein, and David Wilcox, "Monetary Policy and Credit Conditions: Evidence from the Composition of External Finance," American Economic Review, March 1993.

Stephen D. Oliner and Glenn D. Rudebusch, "Monetary Policy and Credit Conditions: Evidence from the Composition of External Finance: Comment," American Economic Review, March 1996, 300-309.

Mitchell A. Petersen and Raghuram G. Rajan, "Trade Credit: Theories and Evidence," The Review of Financial Studies, Fall 1997, 661-91.

Stephen D. Oliner and Glenn D. Rudebusch, "Is There a Bank Lending Channel for Monetary Policy?," FRB San Francisco Economic Review, No. 2, 1995, 3-20.

Stephen D. Oliner and Glenn D. Rudebusch, "Is There a Broad Credit Channel for Monetary Policy?," FRB San Francisco Economic Review, No. 1, 1996, 3-13.

B. Identifying Loan Supply Shocks

Steven A. Sharpe, "Bank Capitalization, Regulation, and the Credit Crunch: A Critical Review of the Research Findings," Finance and Economics Discussion Series No. 95-20, Federal Reserve Board, May 1995.

Donald P. Morgan, "The Credit Effects of Monetary Policy: Evidence Using Loan Commitments," Journal of Money, Credit, and Banking, February, 1998, 102-118.

Joe Peek and Eric Rosengren, "Headwinds in Monetary Policy," manuscript, January 1999.

- Joe Peek and Eric Rosengren, "The International Transmission of Financial Shocks: The Case of Japan," American Economic Review, September, 1997, 495-505.
- Joe Peek and Eric Rosengren, "Collateral Damage: Effects of the Japanese Bank Crisis on Real Activity in the United States," revised September 1998.

C. The Value of Lending Relationships

- Charles P. Himmelberg and Donald P. Morgan, "Is Bank Lending Special?" in Joe Peek and Eric S. Rosengren, eds., Is Bank Lending Important for the Transmission of Monetary Policy?, FRB Boston Conference Series No. 39, 1995, 15-36.
- Mitchell A. Petersen and Raghuram G. Rajan, "The Benefits of Lending Relationships: Evidence From Small Business Data," Journal of Finance, March 1994, 3-38.
- Michael S. Gibson, "Can Bank Health Affect Investment? Evidence From Japan," Journal of Business, Vol. 68, No. 3, 1995, 281-308.
- Michael S. Gibson, "More Evidence on the Link Between Bank Health and Investment in Japan," BOG of the Federal Reserve System, International Finance Discussion Papers No. 549, May 1996.
- Jun-Koo Kang and Rene M. Stulz, "Is Bank-Centered Corporate Governance Worth It? A Cross-Sectional Analysis of the Performance of Japanese Firms During the Asset Price Deflation," NBER Working Paper No. 6238, October 1997.

D. The Importance of Bank Health

- Ben S. Bernanke, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," American Economic Review, June, 1983, 257-76.
- Anil K. Kashyap and Jeremy C. Stein, "The Impact of Monetary Policy on Bank Balance Sheets," Carnegie-Rochester Conference Series on Public Policy, 1995, 42, 151-195.
- Joe Peek and Eric S. Rosengren, "Bank Lending and the Transmission of Monetary Policy," in Joe Peek and Eric S. Rosengren, eds., Is Bank Lending Important for the Transmission of Monetary Policy?, FRB Boston Conference Series No. 39, 1995, 47-68.
- Anil K. Kashyap and Jeremy C. Stein, "What Do a Million Banks Have to Say About the Transmission of Monetary Policy?" NBER Working Paper No. 6056, June 1997.
- Joe Peek, Eric Rosengren, and Geoffrey M.B. Tootell, "Is Bank Supervision Central to Central Banking?," The Quarterly Journal of Economics, forthcoming.

- Benjamin M. Friedman, "The Role of Judgment and Discretion in the Conduct of Monetary Policy: Consequences of Changing Financial Markets," in Changing Capital Markets: Implications for Monetary Policy, the Federal Reserve Bank of Kansas City, 1993, 151-96.
- Brian Motley and John P. Judd, "An Alternative Strategy for Monetary Policy," FRBSF Weekly Letter, January 1, 1993.
- Dean Croushore and Tom Stark, "Evaluating McCallum's Rule for Monetary Policy," FRB-Philadelphia Business Review, January/February 1995, 3-14.
- Frederic S. Mishkin, "Strategies for Controlling Inflation," NBER Working Paper No. 6122, August 1997.
- Bennett T. McCallum, "Issues in the Design of Monetary Policy Rules," NBER Working Paper No. 6016, April 1997.
- John P. Judd and Bharat Trehan, "Has the Fed Gotten Tougher on Inflation?" FRBSF Weekly Letter, March 31, 1995.
- Malcolm Edey, "Costs and Benefits of Moving From Low Inflation to Price Stability," OECD Economic Studies, No. 23, Winter 1994, 109-30.
- Alvin L. Marty and Daniel L. Thornton, "Is There a Case for 'Moderate' Inflation?" FRB-St. Louis Review, July/August 1995, 27-37.
- Mark S. Sniderman, "Inflation Targets: The Next Step for Monetary Policy," FRB-Cleveland Economic Commentary, August 1, 1996.