

# Fiscal and Monetary Policy

Fall 2023

University of Warsaw

**Instructor:** Piotr Żoch

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**Office Hours:** by appointment

**Course Description:** this advanced graduate level course on interactions between fiscal policy and monetary policy will focus partly on substance and partly on tools. It builds on methods introduced in Advanced Macroeconomics. Topics will include: positive and normative models of government debt determination and fiscal-monetary interactions.

Aside from attending class, doing the course readings, and participating in discussions, you will have three additional requirements:

- **Problem Sets:** There will be two or three homework assignments in the course working with models discussed in class. You are encouraged to work on problem sets and to discuss them with your classmates. However, you have to submit your work in groups of up to two people unless stated otherwise on a particular problem set.
- **Referee Report:** You will be asked to write a referee report on a recent paper related to course topics. During the semester I will provide a list of recently circulated working papers.
- **Research Proposal:** You will have to prepare a short research proposal (2-3 pages). It should explain the research question and give a basic outline of how you would approach it.

Grades will be based on effort, insight, originality, execution, and clarity.

## Outline

### 1. Aggregate shocks and debt management

- Robert Barro (1979) "On the Determination of Public Debt", *Journal of Political Economy*
- Robert E. Lucas Jr. and Nancy Stokey (1983) "Optimal Fiscal and Monetary Policy in an Economy without Capital", *Journal of Monetary Economics*
- V.V. Chari, Lawrence Christiano, and Patrick Kehoe (1994) "Optimal Fiscal Policy in a Business Cycle Model", *Journal of Political Economy*
- George-Marios Angeletos (2002) "Fiscal Policy with Non-Contingent Debt and the Optimal Maturity Structure", *Quarterly Journal of Economics*
- Francisco Buera and Juan Pablo Nicolini (2004) "Optimal Maturity of Government Debt with Incomplete Markets", *Journal of Monetary Economics*

### 2. Fiscal capacity

- Henning Bohn (1998) "The Behavior of U.S. Public Debt and Deficits", *Quarterly Journal of Economics*
- Arvind Krishnamurthy, and Annette Vissing-Jorgensen (2012) "The aggregate demand for treasury debt", *Journal of Political Economy*
- Olivier Blanchard (2019) "Public Debt and Low Interest Rates", *American Economic Review*
- Atif Mian, Ludwig Straub, and Amir Sufi (2022) "A Goldilocks Theory of Fiscal Deficits", *NBER Working Papers*

- Neil R. Mehrotra, N. R., and Dmitryi Sergeyev (2021) “Debt Sustainability in a Low Interest Rate World,” *Journal of Monetary Economics*
- Hanno Lustig, Zhengyang Jiang, Stijn Van Nieuwerburgh, and Mindy Z. Xiaolan (2022) “Fiscal Capacity: An Asset Pricing Perspective”, *Review of Financial Economics*
- Hanno Lustig, Zhengyang Jiang, Stijn Van Nieuwerburgh, and Mindy Z. Xiaolan (2022) “Measuring U.S. Fiscal Capacity using Discounted Cash Flow Analysis”, *Brookings Papers on Economic Activity*

### 3. Public debt and heterogeneity

- Michael Woodford (1990) “Public Debt as Private Liquidity”, *American Economic Review*.
- S. Rao Aiyagari and Ellen R. McGrattan (1998) “The Optimum Quantity of Debt”, *Journal of Monetary Economics*
- Anmol Bhandari, David Evans, Mikhail Golosov, and Thomas Sargent (2017) “Public Debt in Economies with Heterogeneous Agents”, *Journal of Monetary Economics*
- Anmol Bhandari, David Evans, Mikhail Golosov, and Thomas Sargent (2021) “Inequality, Business Cycles, and Monetary-Fiscal Policy”, *Econometrica*
- Christian Bayer, Benjamin Born and Ralph Luetticke (2022) “The Liquidity Channel of Fiscal Policy”, *Journal of Monetary Economics*

### 4. Price level determination in monetary economies

- Sargent and Wallace (1975) ““Rational” Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule”, *Journal of Political Economy*
- Truman Bewley, T. F. (1980) “The Optimum Quantity of Money.” in *Models of Monetary Economies*, ed. by J. H. Kareken and N. Wallace
- Eric M. Leeper (1991) “Equilibria Under “Active” and “Passive” Monetary and Fiscal Policies”. *Journal of Monetary Economics*
- Michael Woodford (1994) “Monetary Policy and Price Level Determinacy in a Cash-in-Advance Economy,” *Economic Theory*
- Michael Woodford (1995) “Price-level determinacy without control of a monetary aggregate”, *Carnegie-Rochester Conference Series on Public Policy*
- John Cochrane (2005) “Money as Stock”, *Journal of Monetary Economics*
- John Cochrane (2011) “Determinacy and Identification with Taylor Rules,” *Journal of Political Economy*
- Marcus Hagedorn (2021) “A Demand Theory of the Price Level”, *mimeo*

### 5. Fiscal and monetary policy interactions

- Thomas Sargent and Neil Wallace (1981) “Some Unpleasant Monetarist Arithmetic” *Federal Reserve Bank of Minneapolis Quarterly Review*
- Marco Bassetto and Thomas Sargent (2020) “Shotgun Wedding: Fiscal and Monetary Policy” *NBER Working Papers*
- George Hall and Thomas Sargent (2022) “Debt and Taxes in Eight U.S. Wars and Two Insurrections”, *Handbook of Historical Economics*
- Eric M. Leeper, Campbell Leith (2016) “Understanding Inflation as a Joint Monetary–Fiscal Phenomenon”, *Handbook of Macroeconomics Volume 2*
- John Cochrane (2001) “Long Term Debt and Optimal Policy in the Fiscal Theory of the Price Level”, *Econometrica*
- John Cochrane (2018) “Stepping on a Rake: the Fiscal Theory of Monetary Policy”, *European Economic Review*
- John Cochrane (2021) “The Fiscal Roots of Inflation”, *Review of Economic Dynamics*
- Marco Del Negro and Christopher A. Sims (2015) “When Does a Central Bank’s Balance Sheet Require Fiscal Support?” *Journal of Monetary Economics*

- Francesco Bianchi and Leonardo Melosi (2019) "The Dire Effects of the Lack of Monetary and Fiscal Coordination", Journal of Monetary Economics
- George-Marios Angeletos, Chen Lian and Christian Wolf (2023) "Can Deficits Finance Themselves?", NBER Working Papers