Monetary economics: tools and applications

2nd Semester
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1. COURSE AIMS

Analysis of the transmission of monetary shocks with “inactive” firms and heterogeneous households

2. COURSE CONTENT

The outline of the course is as follows:

Day 1: Mathematical preliminaries and the firm pricing problem with menu cost
1. Continuous time diffusions, controlled BM and HJB equations
2. Price setting with menu cost
3. Classic sS without aggregate shocks

Day 2: The menu cost model confronted with the data: the transmission of shocks
1. The empirical evidence and the menu cost problem
2. The microeconomic foundations of the firm’s problem
3. Analytical characterization and propagation of aggregate shocks

Day 3: Firm inaction and monetary shocks with information frictions
1. Price setting with observation costs
2. Aggregation with constant and random observation cost
3. The role of price plans and the relationship with sticky information and Calvo

Day 4: Combining information frictions and menu cost
1. Price setting with observation and menu cost
2. An application to portfolio rebalancing

Day 5: The role of household heterogeneity
1. Heterogeneity in marginal propensity to consume
2. Heterogeneity in beliefs
3. The propagation of forward guidance policies
3. BIBLIOGRAPHY

• Michelacci, Claudio and Luigi Paciello. 2016. “Ambiguous Policy Announcements”. EIEF WP 17/01