CONTENTS

1. Introduction 1

PART 1 Money in a DSGE Model

- 2. The Cash-in-Advance Model—First Step 7
 - 1. The Household's Problem 10
 - 2. The Asset Market 17
- 3. The Cash-in-Advance Model—Second Step 19
 - 1. Closing the Model 23
 - 2. Optimal Policy 30
 - 3. Quantitative Analysis 31
- 4. Some Interesting Extensions 37
 - 1. Varying Velocity 37
 - 2. Negative Interest Rates 43
 - 3. Elastic Money Demand 45
- 5. The Cash-in-Advance Model—Third Step 51
 - 1. Some Statistics 51
 - 2. The Stochastic Model 52
- 6. The Statistical Model 60
 - 1. Some More Statistics 60
 - 2. Developing the Statistical Model 63
 - 3. Our Model Goes to Monte Carlo 67

7. Some History 69

8. Measurement Error and Our Data 71

9. Money Supply Rules and Interest Rate Rules 77

1. Augmented Model 79

2. Money Supply Rules 80

3. Inflation Targeting 81

4. Interest Rate Rules 81

10. Price-Setting and Information Frictions 83

1. Price Setting 84

2. Adding a Timing Change + an Information Friction 89

3. Putting the Pieces Together 93

4. Sticky Prices or Sticky Wages? 101

11. Inflation, Output, and the Phillips Curve 103

12. The Great Depression through the Lens of Our Model 108

1. What Does Our Model Say? 112

2. Pondering Our Results 113

13. Liquidity Effects and Interest Rates 116

1. New Goods Market 118

2. Household's Problem in the Revised Model 120

3. Constructing the Equilibrium 122

4. Simulating Our Model 127

5. Quantitative Easing and the Liquidity Model 128

PART 2 Capital and Fiscal Policy

14. A Model of Money and Capital 135

1. Balanced Growth Path 138

2. Kaldor's Growth Facts 144

15. Taxes 146

1. Overview of the Federal Government 146

2. Taxation of Individuals in the U.S. 148

3. Corporate Taxation 151

16. Taxes in Our Model: Take 1 152

1. Quantitative Findings 156

2. Capital's Response 160

17. Taxes in Our Model: Take 2 163

1. Adding Heterogeneity to the Model 164

2. Quantitative Results 170

18. Modeling Government Expenditures 178

1. Adjusting Our Model 178

2. Analyzing Our Model 180

3. Quantitative Results 184

PART 3 Dynamic Models with Capital

19. Dynamic Adjustment with Capital 191

1. Extending the Model 192

2. A Special Analytic Case 195

3. Solving the Full Model 196

4. Shooting Algorithm Code 198

20. A Business Cycle Model with Capital 203

1. Business Cycle Model 203

2. Separating Trend from Cycle and Business Cycle Facts 211

3. Calibrating the Growth Model 214

4. Quantitative Analysis 216

21. Optimal Monetary and Fiscal Policy 219

1. The Lucas Approach 219

2. Environment 220

3. Household's Problem 222

4. Government's Policy Choice Problem 224

5. Optimal Policy Implications 230

PART 4 Reviews

22. Math Reviews 235

1. Optimization Review 236

2. Integration 249

3. Linear Approximating Models 250

- 4. Probability Theory Review 252
- 5. Time Series Review 255

23. Python and Dynare Code 258

- 1. SS1 Code 258
- 2. Velocity Code 259
- 3. Elastic Money Demand Code 260
- 4. Stochastic 1 261
- 5. Monte Carlo Code 262
- 6. New Keynesian Scatterplot 264
- 7. Dynare Code 265

Index 267