

## *International Money and Finance*

*Academic Year:* 2016/2017

*Semester:* 2nd

*Instructor(s):* Pedro Teles

### Course Description:

This is a course on fiscal and monetary policy. It covers some of the main principles of optimal fiscal policy, and relates those to the optimal quantity of money. It also covers guidelines for stabilization policy justified by nominal rigidities on prices or wages. Sovereign debt crises are also studied.

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### Course Content:

(a) The Quantity Theory of Money and the short run effects of monetary policy: Empirical evidence on money and output.

Lucas, R. 1996, Nobel Lecture: Monetary Neutrality, *Journal of Political Economy* 104, 4, p. 661-682.

Lucas, R., 1988, What Economists Do, Lecture at The University of Chicago December 1988 Convocation.

(c) A monetary model for the long run: Money, inflation and interest rates.

(d) The optimum quantity of money. A monetary model with cash and credit goods. The Friedman rule.

Teles, P., 2004, The Optimal Price of Money, *Journal of Economic Perspectives of the Federal Reserve Bank of Chicago*, Q II, 2003, p. 29-39.

(d) The model with uncertainty. Optimal policy and asset pricing.

Cochrane, J., 2005, *Asset Pricing*, Princeton University Press.

(e) Short run effects of monetary policy. Optimal stabilization policy

Correia, I., and P. Teles, Principles of Optimal Stabilization Policy, *Banco de Portugal Economic Bulletin*, Summer 2008.

Brito, J. M. B., and P. Teles, Simple Guidelines for Interest Rate Policy, *Banco de Portugal Economic Bulletin*, Spring 2005.

(f) Fiscal and monetary policy when nominal interest rates are at the zero bound. Optimal taxation of capital.

Correia, I., E. Fahri, J. P. Nicolini and P. Teles, 2013, Unconventional Fiscal Policy at the Zero Bound, *American Economic Review* 103, pp. 1172-1211.  
Gomes S., J. Sousa and P. Teles, Good (and not so good) Policy at the Zero Bound, *Banco de Portugal Economic Bulletin*, Summer 2011.

(g) Policy rules: Anchoring inflation expectations with interest rate feedback rules.

(h) Sovereign debt crises

Calvo, G., 1988, Servicing the Public Debt: The Role of Expectations, *American Economic Review*, Vol. 78, No. 4, pp. 647-661.

Teles, P., Sovereign Debt Crises, *Banco de Portugal Economic Bulletin*, Fall 2014.

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Course Objectives:

Provide guidelines for optimal fiscal and monetary policy in the long run and in response to shocks.

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Grading:

Problem sets will be handed out roughly every week. A week later, there will be a test on a small part of the problem set.

The grade is based on problem sets (15%) a midterm exam (35%) and a final exam (50%) which will cover the whole material.

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Bibliography:

Class notes will also be made available.

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Biography:

Pedro Teles is a Full Professor at Catolica-Lisbon SBE. He is also an Advisor at the Bank of Portugal and a Research Fellow of the CEPR. He holds a PhD in Economics (The University of Chicago) and an undergraduate degree in Economics (UCP). He was a Senior Economist in the Research Department at the Federal Reserve Bank of Chicago between 2001 and 2004, and has taught in the Ph.D. programs at Universitat Pompeu Fabra and University College London. His work has been published in the *American Economic Review*, the *Review of Economic Studies*, the *Review of Economic Dynamics*, the *Journal of Economic Theory*, the *Journal of Political Economy*, and the *Journal of Monetary Economics*.

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