

# Fiscal and Monetary Policy

Spring 2026

University of Warsaw

**Instructor:** Piotr Żoch

**Email:** p.zoch@uw.edu.pl

**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 foundations introduced in Advanced Macroeconomics: I assume students are familiar with the Neoclassical Growth Model and the New Keynesian Model. Topics will include: macroeconomic effects of government purchases, fiscal capacity and debt sustainability, public debt management in response to aggregate shocks, theories of price level determination in monetary economies, and fiscal and monetary interactions.

Aside from attending class, doing the course readings, and participating in discussions, you will have two 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.
- **Final Exam:** There will be a final exam in the examination session.

## Outline

### 1. Macroeconomic effects of government purchases

- Aiyagari, Christiano, and Eichenbaum (1992) "The Output, Employment, and Interest Rate Effects of Government Consumption", JME
- Baxter and King (1993) "Fiscal Policy in General Equilibrium", AER
- Blanchard and Perotti (2002) "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output", QJE
- Christiano and Eichenbaum (2011) "When Is the Government Spending Multiplier Large?", JPE
- Ramey and Shapiro (1998) "Costly Capital Reallocation and the Effects of Government Spending", Carnegie-Rochester Conf. Ser. Public Policy
- Ramey (2011) "Can Government Purchases Stimulate the Economy?", JEL
- Ramey (2016) "Macroeconomic Shocks and Their Propagation", Handbook of Macroeconomics vol. 2
- Ramey and Zubairy (2018) "Government Spending Multipliers in Good Times and in Bad: Evidence from U.S. Historical Data", JPE
- Ramey (2019) "Ten Years After the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?", JEP
- Woodford (2011) "Simple Analytics of the Government Expenditure Multiplier", AEJ: Macro

### 2. Fiscal capacity and debt sustainability

- Bohn (1998) "The Behavior of U.S. Public Debt and Deficits", QJE
- Blanchard (2019) "Public Debt and Low Interest Rates", AER

- Kehoe, Nicolini, and Sargent (2020) "A Framework for Studying the Monetary and Fiscal History of Latin America, 1960–2017" Minneapolis Fed Working Paper Series
- Krishnamurthy and Vissing-Jorgensen (2012) "The Aggregate Demand for Treasury Debt", JPE
- Lustig, Jiang, Van Nieuwerburgh, and Xiaolan (2022) "Fiscal Capacity: An Asset Pricing Perspective", RFS
- Lustig, Jiang, Van Nieuwerburgh, and Xiaolan (2022) "Measuring U.S. Fiscal Capacity using Discounted Cash Flow Analysis", Brookings Papers on Economic Activity
- Mehrotra, and Sergeyev (2021) "Debt Sustainability in a Low Interest Rate World," JME
- Mian, Straub, and Sufi (2022) "A Goldilocks Theory of Fiscal Deficits", NBER Working Papers

### 3. Aggregate shocks and debt management

- Angeletos (2002) "Fiscal Policy with Non-Contingent Debt and the Optimal Maturity Structure", QJE
- Angeletos, Collard, and Dellas (2023) "Public Debt as Private Liquidity", JPE
- Barro (1979) "On the Determination of Public Debt", JPE
- Bhandari, Evans, Golosov, and Sargent (2017) "Fiscal Policy and Debt Management with Incomplete Markets", QJE
- Bhandari, Evans, Golosov, and Sargent (2021) "Inequality, Business Cycles, and Monetary-Fiscal Policy", ECMA
- Lucas and Stokey (1983) "Optimal Fiscal and Monetary Policy in an Economy without Capital", JME
- Chari, Christiano, and Kehoe (1994) "Optimal Fiscal Policy in a Business Cycle Model", JPE
- Hall and Sargent (2021) "Debt and Taxes in Eight U.S. Wars and Two Insurrections", Handbook of Historical Economics

### 4. Price level determination in monetary economies

- Bewley (1980) "The Optimum Quantity of Money", Models of Monetary Economies
- Cochrane (2005) "Money as Stock", JME
- Cochrane (2011) "Determinacy and Identification with Taylor Rules", JPE
- Hagedorn (2021) "A Demand Theory of the Price Level", mimeo
- Hagedorn (2024) "The Failed Theory of the Price Level", mimeo
- Holden (2024) "Robust Real Rate Rules", ECMA
- Leeper (1991) "Equilibria Under "Active" and "Passive" Monetary and Fiscal Policies", JME
- Sargent and Wallace (1975) "'Rational' Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule", JPE
- Woodford (1994) "Monetary Policy and Price Level Determinacy in a Cash-in-Advance Economy", ET
- Woodford (1995) "Price-level determinacy without control of a monetary aggregate", Carnegie-Rochester Conf. Ser. Public Policy

### 5. Fiscal and monetary policy interactions

- Angeletos, Lian, and Wolf (2023) "Can Deficits Finance Themselves?", NBER Working Papers
- Bayer, Born, and Luetticke (2022) "The Liquidity Channel of Fiscal Policy", JME
- Bianchi and Melosi (2019) "The Dire Effects of the Lack of Monetary and Fiscal Coordination", JME
- Bianchi, Faccini, and Melosi (2023) "A Fiscal Theory of Persistent Inflation", QJE
- Cochrane (2001) "Long Term Debt and Optimal Policy in the Fiscal Theory of the Price Level", ECMA
- Cochrane (2018) "Stepping on a Rake: the Fiscal Theory of Monetary Policy", EER
- Cochrane (2021) "The Fiscal Roots of Inflation", RED
- Del Negro and Sims (2015) "When Does a Central Bank's Balance Sheet Require Fiscal Support?", JME
- Leeper and Leith (2016) "Understanding Inflation as a Joint Monetary–Fiscal Phenomenon", Handbook of Macroeconomics vol. 2
- Sargent and Wallace (1981) "Some Unpleasant Monetarist Arithmetic" Federal Reserve Bank of Minneapolis Quarterly Review