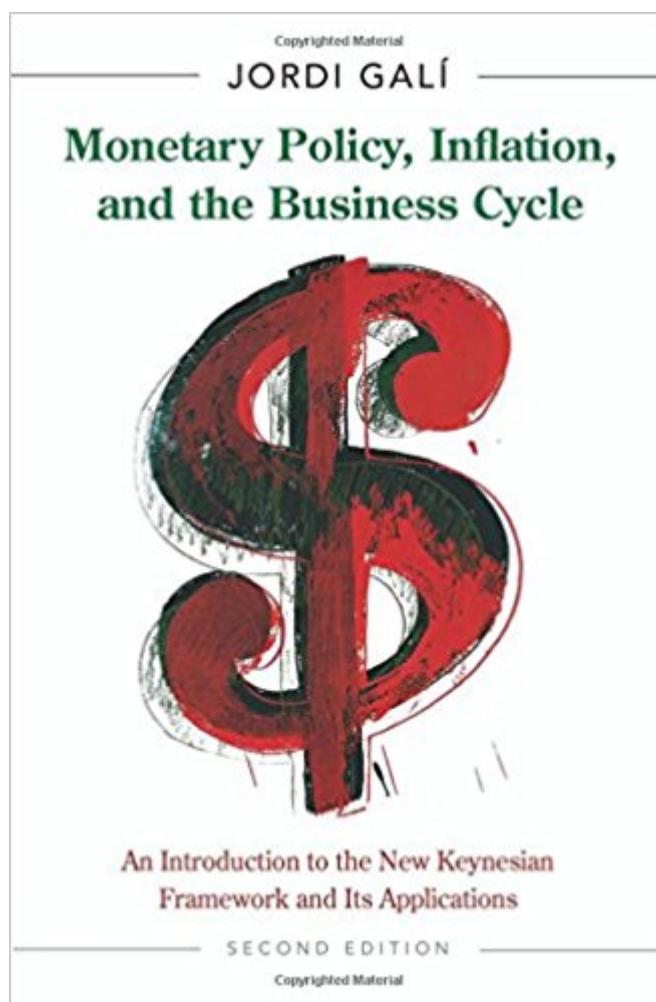


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# Monetary Policy, Inflation, And The Business Cycle: An Introduction To The New Keynesian Framework And Its Applications, Second Edition



## Synopsis

This revised second edition of Monetary Policy, Inflation, and the Business Cycle provides a rigorous graduate-level introduction to the New Keynesian framework and its applications to monetary policy. The New Keynesian framework is the workhorse for the analysis of monetary policy and its implications for inflation, economic fluctuations, and welfare. A backbone of the new generation of medium-scale models under development at major central banks and international policy institutions, the framework provides the theoretical underpinnings for the price stability-oriented strategies adopted by most central banks in the industrialized world. Using a canonical version of the New Keynesian model as a reference, Jordi Galí explores various issues pertaining to monetary policy's design, including optimal monetary policy and the desirability of simple policy rules. He analyzes several extensions of the baseline model, allowing for cost-push shocks, nominal wage rigidities, and open economy factors. In each case, the effects on monetary policy are addressed, with emphasis on the desirability of inflation-targeting policies. New material includes the zero lower bound on nominal interest rates and an analysis of unemployment's significance for monetary policy. The most up-to-date introduction to the New Keynesian framework available. A single benchmark model used throughout. New materials and exercises included. An ideal resource for graduate students, researchers, and market analysts.

## Book Information

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Praise for the previous edition: "A state-of-the-art treatment of the emerging New Keynesian

synthesis by one of the leaders in the field, Galí's book is a must-read for the next generation of macroeconomists."--N. Gregory Mankiw, Harvard UniversityPraise for the previous edition: "Authoritative. This book will be very useful to graduate students and to others seeking an introduction to modern work in this area."--Michael Woodford, Columbia UniversityPraise for the previous edition: "This is a wonderfully elegant and accessible introduction to the contemporary New Keynesian paradigm, written by one of the leading experts in the field. This monograph presents what one should know in a clean, cogent, and concise manner. I fully expect it to become a standard reference for both students and researchers in the field."--Mark Gertler, New York UniversityPraise for the previous edition: "Jordi Galí provides an authoritative overview of the research that revolutionized monetary economics during the past decade, by embedding sticky prices in a coherent dynamic general equilibrium framework--thus providing a novel and much clearer positive and normative analysis of monetary policy. The presentation is elegant and intuitive, yet rigorous. The book will be a standard reference for graduate students, researchers, and policymakers. It is also highly recommended as a textbook for money/macro courses. Numerous useful exercises are provided."--Robert Kollmann, European Center for Advanced Research in Economics and Statistics, Free University of BrusselsPraise for the previous edition: "This book provides an excellent introduction and exegesis of the New Keynesian model that is the current state of the art in the analysis of monetary policy. It will find a large audience with research economists, graduate students, and staffers in central banks around the world."--Philip R. Lane, Trinity College DublinPraise for the previous edition: "Systematic and concise. This is a fine book that is likely to become the key basic text for graduate courses on monetary policy."--Seppo Honkapohja, University of CambridgePraise for the previous edition: "With this book, magician Galí has pulled another important rabbit out of his hat. The book will help to increase the popularity of the New Keynesian model with graduate students, tomorrow's policymakers, and today's policymakers alike. Therefore, it can be considered a real grassroots initiative."--Christian Merkl, Journal of Economics

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Excellent textbook to start New-Keysian economics. Improved clarity and exposition relative to the first edition. Also there is a new chapter in the second edition. Very friendly for beginners.

good

This is the textbook for my first year PhD course in terms of NK model and monetary policy. I want to share my experience about how to use this book. For people (like me) who were new to New Keynesian stuff, it is easy to get lost in massive algebra at first because it takes chapters of algebra before reaching the three equation model (NKPC, Dynamic IS and Taylor rule interest rate). The book was painful to read at first: I was so obsessed with checking all those equations that I lost big pictures and intuition why these equations are formulated in those particular way. However, I found this book extremely enlightening when I reread it for my macro qualifier. For example, it has detailed discussion of relationship between money in utility model and flexible price model, a concept my instructor didn't really specify very carefully. The notion of divine coincidence is covered in chapter 4, and to my knowledge this is the best book that talks about optimal policy in efficient flexible price equilibrium (better than Walsh and Woodford). With respect to chapter 5 (optimal policy with cost

push shock), I suggest reading "Science of monetary policy" as a supplement. I think it is necessary to go through all those mathematical manipulation to learn NK as a first timer. When you need intuition and reference, this book is a must-have.

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