14.461: Advanced Macroeconomics I
Suman S. Basu, MIT

Problem Set 4: Optimal Monetary Policy and Extensions

For this problem set I will ask you to refer to the exercises posted on the course website at:
http://web.mit.edu/14.461/www/part1/lecturesandex.htm

The problem set is due on: Monday, October 31, 2005.

Hand in only Problems 1 and 2.
Solutions to all problems (including Problems 3 and 4) will be posted on the due date.

Problem 1: The Inflation Bias and the New Keynesian Phillips Curve

Section 5 exercises, Question 1.

Problem 2: Monetary Policy, Optimal Steady State Inflation and the Zero Lower Bound

Section 6 exercises, Question 2.

Problem 3: Optimal Monetary Policy with Price-Setting in Advance   [OPTIONAL]

Section 5 exercises, Question 2.

Problem 4: An Optimal Taylor Rule   [OPTIONAL]

Section 6 exercises, Question 1.