# CONTENTS OF THE HANDBOOK

#### VOLUME 1A

# PART 1 - EMPIRICAL AND HISTORICAL PERFORMANCE

Chapter 1

Business Cycle Fluctuations in US Macroeconomic Time Series JAMES H. STOCK and MARK W. WATSON

Chapter 2

Monetary Policy Shocks: What Have we Learned and to What End? LAWRENCE J. CHRISTIANO, MARTIN EICHENBAUM and CHARLES L. EVANS

Chapter 3

Monetary Policy Regimes and Economic Performance: The Historical Record MICHAEL D. BORDO AND ANNA J. SCHWARTZ

Chapter 4

The New Empirics of Economic Growth STEVEN N. DURLAUF and DANNY T. QUAH

# PART 2 - METHODS OF DYNAMIC ANALYSIS

Chapter 5

Numerical Solution of Dynamic Economic Models MANUEL S. SANTOS

Chapter 6

Indeterminacy and Sunspots in Macroeconomics JESS BENHABIB and ROGER E.A. FARMER

Chapter 7

Learning Dynamics

GEORGE W. EVANS and SEPPO HONKAPOHJA

Chapter 8

Micro Data and General Equilibrium Models
MARTIN BROWNING, LARS PETER HANSEN and JAMES J. HECKMAN

## PART 3 - MODELS OF ECONOMIC GROWTH

Chapter 9 Neoclassical Growth Theory ROBERT M. SOLOW

Chapter 10

Explaining Cross-Country Income Differences ELLEN R. McGRATTAN and JAMES A. SCHMITZ, Jr.

## VOLUME 1B

#### PART 4 – CONSUMPTION AND INVESTMENT

Chapter 11
Consumption
ORAZIO P. ATTANASIO

Chapter 12

Aggregate Investment RICARDO J. CABALLERO

Chapter 13 Inventories

VALERIE A. RAMEY and KENNETH D. WEST

# PART 5 - MODELS OF ECONOMIC FLUCTUATIONS

Chapter 14

Resuscitating Real Business Cycles ROBERT G. KING AND SERGIO T. REBELO

Chapter 15

Staggered Price and Wage Setting in Macroeconomics JOHN B. TAYLOR

Chapter 16

The Cyclical Behavior of Prices and Costs
JULIO J. ROTEMBERG and MICHAEL WOODFORD

Chapter 17

Labor-Market Frictions and Employment Fluctuations ROBERT E. HALL

Chapter 18

Job Reallocation, Employment Fluctuations and Unemployment DALE T. MORTENSEN and CHRISTOPHER A. PISSARIDES

## **VOLUME 1C**

## PART 6 - FINANCIAL MARKETS AND THE MACROECONOMY

Chapter 19
Asset Prices, Consumption, and the Business Cycle
JOHN Y. CAMPBELL

Chapter 20 Human Behavior and the Efficiency of the Financial System ROBERT J. SHILLER

Chapter 21
The Financial Accelerator in a Quantitative Business Cycle Framework
BEN S. BERNANKE, MARK GERTLER and SIMON GILCHRIST

## PART 7 - MONETARY AND FISCAL POLICY

Chapter 22
Political Economics and Macroeconomic Policy
TORSTEN PERSSON and GUIDO TABELLINI

Chapter 23
Issues in the Design of Monetary Policy Rules
BENNETT T. McCALLUM

Chapter 24
Inflation Stabilization and BOP Crises in Developing Countries
GUILLERMO A. CALVO and CARLOS A. VÉGH

Chapter 25
Government Debt
DOUGLAS W. ELMENDORF AND N. GREGORY MANKIW

Chapter 26
Optimal Fiscal and Monetary Policy
VV. CHARI and PATRICK J. KEHOE

# CONTENTS OF VOLUME 1C

Introduction to the Series	v
Contents of the Handbook	vii
Preface to the Handbook	xi
PART 6 – FINANCIAL MARKETS AND THE MACROECONOMY	
Chapter 19	
Asset Prices, Consumption, and the Business Cycle	
JOHN Y. CAMPBELL	1231
Abstract	1232
Keywords	1232
1. Introduction	1233
2. International asset market data	1238
3. The equity premium puzzle	1245
3.1. The stochastic discount factor	1245
3.2. Consumption-based asset pricing with power utility	1249
3.3. The riskfree rate puzzle	1252
3.4. Bond returns and the equity premium and riskfree rate puzzles	1255
3.5. Separating risk aversion and intertemporal substitution	1256
4. The dynamics of asset returns and consumption	1260
4.1. Time-variation in conditional expectations	1260
4.2. A loglinear asset pricing framework	1264
4.3. The stock market volatility puzzle	1268
4.4. Implications for the equity premium puzzle	1272
4.5. What does the stock market forecast?	1275
4.6. Changing volatility in stock returns	1277
4.7. What does the bond market forecast?	1280
5. Cyclical variation in the price of risk	1284
5.1. Habit formation	1284
5.2. Models with heterogeneous agents	1290
5.3. Irrational expectations	1293
6. Some implications for macroeconomics	1296
References	1298

Chapter 20	
Human Behavior and the Efficiency of the Financial System	
ROBERT J. SHILLER	1305
Abstract	1305
Keywords	1306
Introduction	1300
1. Prospect theory	
2. Regret and cognitive dissonance	1308
3. Anchoring	1313
4. Mental compartments	1314
5. Overconfidence, over- and under-reaction and the representativeness heuristic	1317
6. The disjunction effect	
7. Gambling behavior and speculation	1324
8. The irrelevance of history	1325
9. Magical thinking	1325
10. Quasi-magical thinking	1328
11. Attention anomalies and the availability heuristic	1329
12. Culture and social contagion	1330
13. A global culture	1331
14. Concluding remarks	1332
References	1333
	1334
Chapter 21	
The Financial Accelerator in a Quantitative Business Cycle Framework	
BEN S BERNANKE MADY CEDETED 1 CONTROL OF STREET	1341
Abstract	1342
Keywords	1342
1 Introduction	1343
2 The model: overview and basis and state of the state of	1346
3 The demand for conital and the state of th	1349
3.1 Contract torms and an all	1350
3.2. Contract towns = 1	1352
3.3 Net syouth and the and the series of the	1352
4 General equilibrium	1355
4.1. The entrepression of the state of the s	1356
4.2 The complete log linewind 1.1	1360
5 Model simulations	1367
5.1 Model parametrization	1367
5.2 Results	1368
6. A highly selected review of the 1's	1308
7 Directions for future work	1373 1379
Appendix A The optimal from interest to the continual from int	1379
- Promoteria	1380

Contents of Volume 1C	xvii
A.2. The log-normal distribution	1385
A.3. Aggregate risk	1385
Appendix B. Household, retail and government sectors	1387
B.1. Households	1387
B.2. The retail sector and price setting	1388
B.3. Government sector	1389
References	1390
PART 7 – MONETARY AND FISCAL POLICY	
Chapter 22	
Political Economics and Macroeconomic Policy	
TORSTEN PERSSON and GUIDO TABELLINI	1397
Abstract	1399
Keywords	1399
1. Introduction	1400
Part A. Monetary Policy	1404
2. Credibility of monetary policy	1405
2.1. A simple positive model of monetary policy	1405
2.2. Ex ante optimal monetary policy	1407
2.3. Discretion and credibility	1409
2.4. Reputation	1412
2.5. Notes on the literature	1415
3. Political cycles	1416
3.1. Opportunistic governments	1416
3.2. Partisan governments	1422
3.3. Notes on the literature	1425
4. Institutions and incentives	1426
4.1. Fixed exchange rates: simple rules and escape clauses	1427
4.2. Central bank independence	1429
4.3. Inflation targets and inflation contracts	1432
4.4. Notes on the literature	1437
Part B. Fiscal Policy	1439
5. Credibility of fiscal policy	1440
5.1. The capital levy problem	1440
5.2. Multiple equilibria and confidence crises	1445
5.3. Public debt management	1446
5.4. Reputation and enforcement	1448
5.5. Notes on the literature	1449
6. Politics of public debt	1450
6.1. Political instability in a two-party system	1451
6.2. Coalition governments	1457
6.3. Delayed stabilizations	1461

6.4. Debt and intergenerational politics	1462
6.5. Notes on the literature	1463
Part C. Politics and Growth	1464
7. Fiscal policy and growth	1466
7.1. Inequality and growth	1466
7.2. Political instability and growth	1467
7.3. Property rights and growth	1469
7.4. Notes on the literature	1472
References	1472
	1473
Chapter 23	
Issues in the Design of Monetary Policy Rules	
BENNETT T. McCALLUM	1483
Abstract	1484
Keywords	1484
1. Introduction	1485
2. Concepts and distinctions	1486
3. Special difficulties	1490
4. Choice of target variable	1495
5. Choice of instrument variable	1505
6. Issues concerning research procedures	1515
7. Interactions with fiscal policy	1518
8. Concluding remarks	1523
References	1524
Chapter 24	
Inflation Stabilization and BOP Crises in Developing Countries	
GUILLERMO A. CALVO and CARLOS A. VÉGH	
Abstract Abstract	1531
Keywords	1533
1. Introduction	1533
2. Understanding chronic inflation	1534
2.1. Inflation as an optimal tax	1536
2.2. Shocks and accommodation	1537
2.3. Multiple equilibria	1538
2.4. The "provinces" effect	1539
2.5. Delayed stabilization	1540
2.6. In conclusion	1540
3. Evidence on the real effects of stabilization in chronic-inflation countries	1541
3.1. Exchange-rate-based stabilization: empirical regularities	
3.2. Money-based stabilization: empirical regularities	1543
3.3. Recession now versus recession later	1554
3.4. A word of caution	1557
	1559

Co	ntents of Volume IC	xix
4.	Exchange-rate-based stabilization I: inflation inertia and lack of credibility	1562
	4.1. Inflation inertia	1562
	4.2. Lack of credibility	1569
5.	Exchange-rate-based stabilization II: durable goods, credit, and wealth effects	1573
	5.1. Durable goods	1573
	5.2. Credit market segmentation	1575
	5.3. Supply-side effects	1577
	5.4. Fiscal policy	1580
	5.5. And the winner is	1581
6.	Money-based stabilization	1582
	6.1. A simple model	1582
	6.2. Extensions to other money-based regimes	1587
	6.3. Money anchor versus exchange-rate anchor	1588
7.	Balance-of-payments crises	1590
	7.1. Liquidity	1591
	7.2. The Krugman model	1592
	7.3. Krugman model: critique and extensions	1595
	7.4. The current account approach	1597
	7.5. Financial considerations	1599

DOUGLAS W. ELMENDORF AND N. GREGORY MANKIW

2.1. Debt and deficits in the USA and other countries

3.2. How large is the long-run effect of debt on the economy?

4.2. The debate over Ricardian equivalence: theoretical issues

4.3. The debate over Ricardian equivalence: empirical issues

3.1. How does debt affect the economy?

5.1. Fiscal policy over the business cycle

5.2. Fiscal policy and national saving

1604

1607

1615

1616

1616

1617

1617

1618 1620

1625

1627

1628 1632

1640

1640

1645

1654

1659

1659

1660 1662

8. Concluding remarks

References

Chapter 25
Government Debt

Abstract

Keywords

2. The data

1. Introduction

2.2. Measurement issues

2.3. Future fiscal policy3. The conventional view of debt

4. Ricardian equivalence

5. Optimal debt policy

5.3. Tax smoothing

4.1. The idea and its history

	and by rottime re
6. Conclusion	1.660
References	1663
	1663
Chapter 26	
Optimal Fiscal and Monetary Policy	
V.V. CHARI and PATRICK J. KEHOE	1.771
Abstract	1671
Keywords	1672
Introduction	1672
1. The primal approach to optimal taxation	1673
1.1. The Ramsey allocation problem	1676
1.2. Elasticities and commodity taxation	1676
1.3. Uniform commodity taxation	1680
1.4. Intermediate goods	1682
2. Fiscal policy	1684
2.1. General framework	1686
2.2. Capital income taxation	1686
2.3. Cyclical properties	1693
2.4. Other environments	1699
3. Monetary policy	1711
	1720
<ul><li>3.1. Three standard monetary models</li><li>3.2. From monetary to real</li></ul>	1721
3.3. Cyclical properties	1733
4. Conclusion	1736
References	1742
References	1743
Author Index	
Author index	I-1
Subject Index	
Subject Index	I-33