This book presents important aspects of the New-Keynesian theory of monetary policy and its implications for the practical decision making of central bankers today. It brings together several new research contributions that were presented at the scientific symposium on the occasion of the award of the Deutsche Bank Prize in Financial Economics 2007 to Professor Michael Woodford of Columbia University. Woodford received this prize according to the jury in recognition of his fundamental contributions to the theory and practical analysis of monetary policy. The prize jury included Günter Franke, Michael Hallassos, Otmar Issing, Jan Krahnen, Patrick Lane, Lucrezia Reichlin, Reinhardt Schmidt, Lars Svensson, Norbert Walter and Volker Wieland.

The first part on “The New-Keynesian Approach to Understanding the Economy” contains two chapters written by Bennett McCallum and Jordi Galí, respectively. McCallum provides an exposition of key elements of the New-Keynesian approach to monetary policy analysis and an appreciation of Woodford’s contributions. Galí further develops several key lessons of this approach and points out important new directions for further research.
The second part on “The New-Keynesian Approach in Forecasting and Monetary Policy Design” contains three chapters that build bridges between the theory and practice of monetary policy. Michael Woodford draws out the policy conclusions of the New-Keynesian approach and presents his case for forecast targeting as a strategy for the practical conduct of monetary policy. Domenico Giannone, Francesca Monti and Lucrezia Reichlin then show how to combine forecasts from quarterly macroeconomic models of the New-Keynesian variety with additional timely information that is available at a monthly frequency. Guenter Beck and Volker Wieland address recent criticisms that the New-Keynesian approach fails to explain money and inflation trends. They point to central bank misperceptions regarding potential output as a root cause of such trends and show that monetary aggregates can serve as a useful cross-check to a forecast targeting strategy.

In the third part Frederic Mishkin goes on to address the question “Will monetary policy become more of a science?” Mishkin, who served as a Governor at the Board of Governors of the Federal Reserve System when he wrote this chapter, provides new insights from a theoretical as well as a practical perspective as central bank decision maker.

The final part reports on the scientific symposium in honor of Michael Woodford. It includes statements by Josef Ackermann, Volker Wieland and Hermann-Josef Lamberti as well as a detailed summary of the symposium written by Celia Wieland. In conclusion, a panel discussion with Norbert Walter, Stefan Gerlach, Patrick Lane and Otmar Issing offers new insights regarding the New-Keynesian approach, its successes, failures and some important open questions.

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