

DSGE Modelling: A Critical Introduction

Dr. Sakir Devrim Yilmaz, Kingston University

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The purpose of this lecture is to present an introduction and critique of dynamic stochastic general equilibrium models. In order to do so, the lecture will closely follow the book by Romer “Macroeconomics” (2008), particularly Chapter 6-7, and present a simple canonical DSGE model outlined in Chapter 7. The lecture will also provide some evidence on the shortcoming of DSGE models in monetary analysis, and briefly cover recent developments in DSGE modelling which incorporate bargaining processes over the surplus, endogenous money creation by banks, and inequality in models with heterogeneous worker-capitalist-banker agents.

Main References:

Romer, D. (2011) “*Advanced Macroeconomics*”, 4th Edition, Mc Graw Hill, New York.
Gali (2008) “*Monetary Policy, Inflation and the Business Cycle*”, Princeton University Press, Oxfordshire.

Further References:

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Charpe, M. and Kuhn, S. (2010) “Inequality, Aggregate Demand and Crises”, ILO Working Paper, available at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/genericdocument/wcms_192628.pdf
Christiano, L., Eichenbaum M. S and Trabandt, M. (2012) “Unemployment and Business Cycles”, [NBER Working Papers](#), No: 19265.
Edge, R.M and Gurkaynak, R. S. (2011) “How Useful are Estimated DSGE Model Forecasts”, [CEPR Discussion Papers](#), No:8158.
Faccini, R., Millard, S. and Zanetti, F. (2010) “Wage Rigidities in an Estimated DSGE Model of the UK Labour Market”, [Bank of England Working Papers](#), No: 408.
Flotho, S. (2009) “DSGE Models – Solution Strategies”, Mimeo, available at https://www.macro.uni-freiburg.de/publications/research_flotho/dsge_models
Gerali, A., Neri, S., Sessa, L., and Signoretti, F. M. (2009) “Credit and Banking in an Estimated Model of the Euro Area” [Journal of Money, Credit and Banking](#), vol. 42(s1), pp. 107-141.
Smets, F. and R. Wouters (2003) An Estimated Dynamic Stochastic General Equilibrium Model Of The Euro Area", *Journal Of The European Economic Association*, Vol. 1(5), pp. 1123-1175.