

# Asset Pricing, $r$ versus $g$ , and Modern Monetary Theory: How Much Debt Can Governments Issue?

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**About the Seminar** The seminar targets students who have completed their mandatory training in microeconomics, macroeconomics and mathematics (i.e., students in the second half of their BA studies) and who are interested in modern macroeconomic theory.

We analyze arguments according to which the government does, or does not face an intertemporal budget constraint. What does the literature on asset pricing, rational bubbles, or the fiscal theory of the price level have to say? Why does the difference between the interest rate and the growth rate matter? Does “Modern Monetary Theory” add anything to these insights?

We start by reviewing standard economic models (c. 3 classes). Thereafter, students read contributions to the literature, summarize them and present their summaries in class.

There is a maximum of 12 participants, first-come-first-served (according to date of registration on KSL). Meetings: Tuesday, 12:15–14:00h, UniS, A019.

**Literature** The textbook material in the beginning is standard; choose any other textbook if you prefer.

## i. Foundations

- (i) Euler equation. [Niepelt \(2019, 2.1.1, 2.1.2.1\)](#). Asset pricing. [Niepelt \(2019, 5.1, 5.3\)](#).
- (ii) Roles of government debt. [Elmendorf and Mankiw \(1999\)](#), [Niepelt \(2019, 11.2.1\)](#).
- (iii) Consolidated government budget constraint. [Sargent \(2012, first sections\)](#), [Niepelt \(2019, 11.4.1\)](#).

## ii. Bubbles

- (i) Speculation and bubbles. [Tirole \(1982\)](#), [Tirole \(1985\)](#).
- (ii) Bubbles overview. [Brunnermeier and Oehmke \(2013\)](#), [Martin and Ventura \(2018\)](#).

## iii. Fiscal Theory of the Price Level

- (i) [Kocherlakota and Phelan \(1999\)](#), [Christiano and Fitzgerald \(2000\)](#), [Buiter \(2002\)](#), [Niepelt \(2004\)](#), [Niepelt \(2019, 11.4.5\)](#).

- iv. Debt sustainability,  $r$  vs.  $g$ 
  - (i) [Mehrotra and Sergeyev \(2021\)](#), [Reis \(2021, first sections\)](#), [Mian et al. \(2022, first sections\)](#), [Willem and Zettelmeyer \(2021\)](#).
- v. MMT
  - (i) Pro: [Kelton \(2020\)](#).
  - (ii) Con: [Buiter \(2020\)](#), [Cochrane \(2020\)](#), [Grier \(2021\)](#).
- vi. Related topics and sources
  - (i) Blanchard (forthcoming). [Fiscal Policy under Low Interest Rates](#).
  - (ii) Niepelt (2020), [Reading List on ‘Free’ or ‘Not-so-free’ Public Debt](#), December 29.

Bedtime reading:

- i. Moderne monetäre Theorie: Ein makroökonomisches Perpetuum mobile, [NZZ](#), April 25, 2019.
- ii. Staatsschulden sind keineswegs kostenlos, [NZZ](#), February 1, 2021.
- iii. Modern Monetary Theory Isn’t Coming in the Future. It’s Here Now. *The Wall Street Journal*, November 22, 2021, p. 26.
- iv. Grenzen der Staatsverschuldung. [Fazit Blog](#), December 31, 2021.
- v. Die ewige Frage lautet: Wer soll das bezahlen? *Handelsblatt*, January 7, 2022, pp. 30.

## References

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