LECTURE 6

DOES MONETARY POLICY MATTER?

FEBRUARY 7, 2013

I. MONEY-OUTPUT REGRESSIONS
   A. The Issue: Determining the Effects of Monetary Changes
   B. A Simple “Model” of the Determination of GDP Growth
      1. The model
      2. Comments
   C. Estimating the Parameters of the Model Using a Regression
   D. The Results of a Typical Money-Output Regression
      1. Specification
      2. Results
      3. Comments
   E. Discussion and Assessment
      1. Possible problems
      2. The general issue: omitted variable bias
      3. The message: correlation is not causation

II. TAKING “IDENTIFICATION” SERIOUSLY
   A. Controlled Experiments, Random Assignment, and Natural Experiments
   B. Friedman and Schwartz’s Key Episodes
   C. Digression: A Little Bit About “Instrumental Variables”
   D. Friedman and Schwartz’s Results
   E. Discussion and Assessment
   F. A Little Bit about Reading Regression Results
      1. Coefficient estimates, standard errors, and t-statistics
      2. Some examples
      3. A caution