INTRODUCTION

The title of this dissertation is "Three Essays in Monetary Economics". If another title would have been appropriate, that is "A Monetary Analysis of the Euro Area". This clearly summarizes what I have done in my three contributions. In fact, all the empirical parts of the thesis have been done using aggregate data of the Euro Area, implying that the monetary policy suggestions derived may be helpful for the European Central Bank (ECB).

In this introduction I would like just to briefly explain what I did, but in particular I would guide the reader through the structure of the thesis, highlighting the differences and the relationships among the different chapters. Hence I will not report in detail the results of my analysis. They may be easily found reading the introduction and the concluding remarks of each chapter, bearing in mind the following description. Nevertheless, I will try to emphasize which is the original contribution of each single chapter.

In the first chapter, I derived the optimal monetary policy rule indeed for European Central Bank. I set a maximization problem where the central bank has to maximize an objective (loss) function with respect to some variable of interests (namely inflation, output and interest rate smoothing) subject to a constraint represented by a series of equation (a model) synthesizing the economy. In this first chapter the model is given by just two equations, one for the demand side and the other for the supply side. Solving the maximization problem, it is possible to compute the optimal state contingent rule, i.e. a rule which indicates the central bank how to set the interest rate in order to minimize the loss function, given some preferences about the different objectives.

The aim in deriving such a rule is threefold. First, I could derive policy suggestions for the ECB in terms of the optimal rule to follow. Second, I could evaluate the desirability to follow a rule such the optimal one rather than a Taylor rule, which is quite popular given the fact that it is a quite easy guide for a central bank. Third, and this is the original contribution, focusing on a sample period in which the ECB was effectively at work, differently from the previous articles where the authors considered period far in the past, I obtain different results.

The goal of the second chapter is to investigate the relevance of the credit channel for the transmission of the monetary policy in the Euro Area, basing my analysis on a New Keynesian Dynamic Stochastic General Equilibrium model. The relevance of the credit channel is well known in the literature, and many good surveys exist and discuss the empirical work in the area. There are many recent works which incorporate such a channel in the DSGE models.

Nevertheless, the empirical analysis of the so called financial accelerator mechanism is still scant in this context. I know just five papers dealing with such a topic, and just one of them focuses on the Euro area. The author analyzes how important are the financial frictions in the U.S. and Euro Area, finding that they are particularly relevant in the latter area, both for the standard BGG model and for the other modified models augmented with different source of frictions she proposes. My work is different in two respects. On one hand, I use a larger sample. I consider the period from the first quarter of 1980 to the last quarter of 2006 (instead of 1980q1-2002q4). The results are not surprising:

financial frictions play a relevant role in the Euro Area. Nevertheless, given some differences in the specifications of the model, I obtained different, and in some cases better, results in terms of estimation.

On the other hand, I have a different aim in implementing this paper. In fact, given that the financial frictions are relevant, I want to highlight which are the consequences for the monetary policy, and this leads me to the third chapter.

In the third chapter I implemented the same exercise developed in the first one. Nevertheless, having a different model representing the constraint for the monetary authority, I could rely on the strength of the modern macroeconomic models and on their usefulness for the monetary analysis. It is also important to stress that I used data far in the past, before the existence of the ECB, because of the complexity of the estimated model. As a consequence, given the arguments brought in the first chapter, I will not interpret the results obtained as policy suggestion for the ECB.

Those results are related to the presence of the asset prices and of the financial premium among endogenous variables, which allowed me to focus on the one hand on a quite discussed issue in the literature, i.e. the desirability to target the asset prices, and on the other hand, and finally this is the main contribution, to analyze the convenience for the central bank to target some measure of the financial friction, such for instance the financial premium.