



**NEWSLETTER 2016-21**

**CALENDAR:**

**Departmental Seminar**

Roman Sustek (Queen Mary University)  
*On the Mechanics of New-Keynesian Models*

Monday, October 31  
16:30–18:00  
VG H26

**ABSTRACTS:****Departmental Seminar**

Roman Sustek

*On the Mechanics of New-Keynesian Models*

(joint work with Peter Rupert)

*Abstract:* The monetary transmission mechanism in New-Keynesian models is put to scrutiny, focusing on the role of capital. We demonstrate that, contrary to a widely held view, the transmission mechanism does not operate through a real interest rate channel. Instead, as a first pass, inflation is determined by Fisherian principles, through current and expected future monetary policy shocks, while output is then pinned down by the New-Keynesian Phillips curve. The real rate largely only reflects consumption smoothing. In fact, declines in output and inflation are consistent with a decline, increase, or no change in the ex-ante real rate.

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INSTITUT FÜR  
VOLKSWIRTSCHAFTSLEHRE UND  
ÖKONOMETRIE

Universitätsstraße 31 ■ 93040 Regensburg

Newsletter-Redaktion: [Martina Kraus-Pietsch](mailto:Martina.Kraus-Pietsch@ur.de)

Telefon: +49 941 943-2710

Fax: +49 941 943-2734

E-Mail: [econ.news@ur.de](mailto:econ.news@ur.de)

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