Acceptance speech

19 June 2025

# **Jordi Galí**, awardee in the Economics, Finance and Management category (17th edition)

Since my first encounter with macroeconomics, as an undergraduate student in the early 80s, I have always been fascinated with economic fluctuations. Living in a country whose unemployment rate climbed above 20% around that time surely helped stimulate my interest in the subject.

Much of my research has aimed at understanding the nature of fluctuations, as well as the role that monetary and fiscal policies can play in stabilizing them and limiting their harmful consequences.

Many of my contributions have been in the area of optimal monetary policy design. In work with Rich Clarida and Mark Gertler, we provided an analytical treatment of the optimal monetary policy problem and its implementation by means of relatively simple interest rate rules in the context of a canonical New Keynesian model. One of the main findings of our work was to show that there could be welfare gains from the monetary authority being able to commit to future policy actions, even if the economy's steady state was efficient. This result was an implication of a distinctive property of the New Keynesian model, namely, that today's inflation is determined not only by current output but also by the anticipation of future price and output levels. If the central bank can influence expectations regarding such future outcomes, then current inflationary pressures can be tamed with a lower cost in terms of output, which is socially beneficial.

In subsequent empirical work with Rich and Mark, we uncovered a significant change in the conduct of U.S. monetary policy starting in the early 80s, relative to the period that preceded Paul Volcker's tenure as Federal Reserve chairman. Furthermore, we showed that the estimated interest rate rule for the pre-Volcker period, when embedded in a canonical New Keynesian model, is consistent with a multiplicity of equilibria, and could thus be a source of instability in itself. That work has often been cited for providing evidence of an improvement in U.S. monetary policy that could partly account for the stability of the so-called Great Moderation period.

In related work with the same coauthors, as well as in an independent paper with Tommaso Monacelli, we extended the normative analysis of monetary policy to an open economy environment, both for small and large economies.

That work clarified, under some baseline assumptions, the precise measure of inflation that the monetary authority should optimally seek to stabilize, and the key role played by a flexible exchange rate in bringing about the desired outcomes. That research has proved a useful benchmark in subsequent work by other researchers, who have revisited the same problem under alternative sets of assumptions.

In work with David López-Salido and Javier Vallés, and more recently, with Davide Debortoli, I have explored the role played by household heterogeneity in shaping economic fluctuations. Much of that work has focused on developing simple tractable versions of the New Keynesian model that can capture all the relevant channels through which heterogeneity impacts the economy's response to different shocks.

Of all my papers, the 1999 article in the AER is, however, my personal favorite. In that work I provided empirical evidence of a negative short-run co-movement between output and labor input in response to technology shocks, a finding that implies an outright rejection of a key prediction of standard Real Business Cycle models, but one which can be easily reconciled with the New Keynesian framework, at least under some plausible assumptions on the monetary policy rule in place. That evidence can also be interpreted as ruling out technology shocks as a dominant source of fluctuations, since the unconditional correlation between the cyclical components of output and labor input measures is strongly positive in the data.

I am truly honored to have been awarded the Frontiers of Knowledge Award in Economics, and to share that award with Olivier Blanchard and Mike Woodford, from whose work and teachings I have learned immensely since my days as a PhD student at MIT, where Olivier was my main advisor and where Mike, who was visiting from Chicago, taught an eye-opening course on monetary theory.

I am also very grateful to all the coauthors I have worked with over the years, including Olivier himself, as well as to the excellent colleagues and students I have had at Columbia, at NYU and, for many years now, at CREI, UPF and BSE. Of all of them, let me single out Mark Gertler, a recipient himself of the Frontiers of Knowledge Award in 2020, who was instrumental in spurring my interest in monetary policy when we were colleagues at NYU.

I want to express my gratitude to the BBVA Foundation and to the members of the committee for this wonderful award, and to my wife, Ellen, and our children, Arnau and Anna Carla, for their unconditional support and patience, and for showing me there is more to life than economics.