Guenter W. Beck and Volker Wieland
Learning, Stabilization and Credibility:
Optimal Monetary Policy in a Changing Economy
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- Extensive comment on Ellison-Valla (different setup than Wieland 98, 00)
  - More realistic model uncertainty (continuous rather than discrete)
  - Reproduced Wieland results
  - Comparison not yet complete
    * Intuition/explanation of differences?
    * Graphs different from Ellison-Valla
    * Role of output-gap target, inflation bias?

- Definition of caution/aggressiveness?
  - Policy response? Variable? Instrument or target?
  - Focus on inflation (target variable)
    \[
    \pi_t = \pi_t^e - \frac{B \pi|t-1| - \phi z_t}{B \pi|t-1| + \omega} \tag{C}
    \]
    \[
    \pi_t = \pi_t^e - \frac{B \pi|t-1| + v |t-1| + \phi z_t}{B \pi|t-1| + v |t-1| + \omega} \tag{M}
    \]
    \[M < C\]

- Focus on deterministic component of output gap (target variable)
  \[
  y_t = \beta(\pi_t - \pi_t^e) + \mu_t
  \]
  \[
  \tilde{y}_t = b \pi|t-1| (\pi_t - \pi_t^e) + \phi z_t
  \]
  \[
  \tilde{y}_t = \left[ 1 - \frac{\pi|t-1|}{\phi z_t} \right] \phi z_t \tag{C}
  \]
  \[
  \tilde{y}_t = \left[ 1 - \frac{\pi|t-1| + v |t-1| + \omega}{\phi z_t} \right] \phi z_t \tag{M}
  \]
  \[C < M\]

- Caution/aggressiveness depends on target variable
- Instrument rate usually more closely associated with output gap than inflation