Francesco Lippi and Stefano Neri
Information Variables for Monetary Policy in
a Small Structural Model of the Euro Area

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- Great paper, very elegant, very interesting results. Still incomplete.

- Estimation of small "hybrid" imperfect-information model of the Euro area

  - Synthetic euro area data 1980:1–2003:2, Eurostat, ECB
  - Consistent ML estimation of parameters, including measurement errors

- Analysis of model

- Analysis of information

- Results

  - Precise estimates of parameters

  - Both forward- and backward-looking behavior

  - Weights on inflation stabilization, output-gap stabilization, interest-rate smoothing: 1, .25, .5

  - Information content and policymaker-loss consequences of indicators distinct

    * More information does not necessarily reduce policymaker loss
    * Monetary aggregates contain little information for policy (increases loss slightly)
    * Unit labor cost contains useful information about output gap (reduces loss)

  - Loss consequences of commitment vs. discretion

Comments

- Model

  – Very simple, highly aggregated

  – Current inflation, output gap, money stock forward-looking, not predetermined?

     ∗ Distinct from information lag

  – Indexation, Calvo price-setting, vertical long-run Phillips curve?

  – Money demand function cost-of-adjustment (relation to error-correction?)

  – Constant loss function during sample

- Data (Figure 1)

  - Synthetic euro-area data, treated as one country, constant loss function

  - HP filtering except inflation

  - Inflation, trend, constant inflation target $\pi^* = 2\%$

    * Gerlach-Svensson: Moving estimated inflation target
    * Sensitivity to assumption about inflation target? (λ, ν, ...)
    * Constancy of λ, ν?
    * Optimal and realized short-term interest rate (Figure 2)
    * Robustness analysis to be done

- Estimates (Table 1)

  - High precision. Why?
  - Estimates of loss function conditional on discretion

- Optimal and realized short-term interest rate (Figure 2)

  - Constancy of π^*?

- Estimated Taylor-type rule close to Taylor rule

  - Cf. Gerlach-Schnabel

- Impulse responses (Figure 3–5)

  - Relative lags, inflation, output gap?
  - Compare discretion w/ commitment

- Information and loss results

  - 2nd best result? Discretion? Check commitment!