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? ($\lambda$, $\nu$, ...)
    * Constancy of $\lambda$, $\nu$?
  * 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 $\pi^*$?

• 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!