

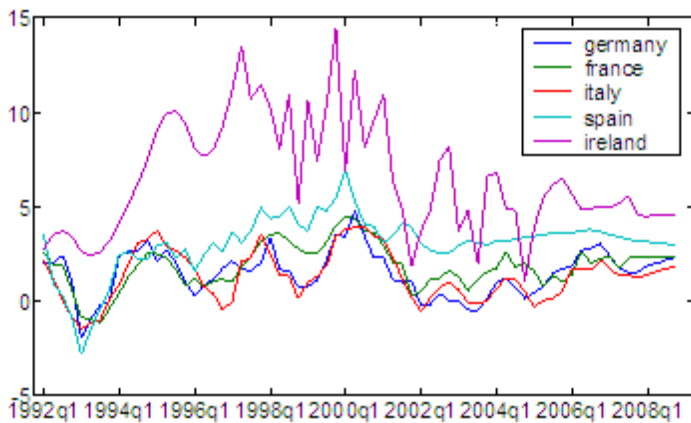
Discussion of the paper "Monetary and fiscal policy in a monetary union: Does fiscal policy coordination matter?" by Chiara Forlati (UPF)

Efrem Castelnuovo

University of Padua

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# European Monetary Union, selected countries



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- ... but EMU regulations does not force coordination!

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- Comparison between coordination and no-coordination scenarios: Coordination matters! (i.e. it is efficiency-improving)
- Dynamic responses to tech shock, mark up shock: Fiscal policy important for optimal monetary policy

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- Fiscal policy: Provides public good, labor subsidy, lump sum taxes (SGP)
- Monetary policy: Authority max union *simple* average of the second order approx of repr agent's utility

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- Dynamic responses to tech shock, mark up shock: Fiscal policy coordination is key for the *sign* of the interest rate reaction!

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# My reaction

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- Just a couple of points

# Understanding the real world with this model

- Euro-area: 13 countries, quite asymmetric in terms of relative weights
- What can we do with
- ① Continuum of countries (i.e. negligible impact of each single country's move on the union equilibrium values) ... no room for strategic interactions! What about Germany?
- ② Monetary policy max union's simple average ... sure at the ECB they have equally cared of Germany and Portugal?
- Any sense of how robust this results may be?

Closed economy: Is fiscal policy ineffective for stabilizing the business cycle?

- Leeper and Yun (2005): Active monetary policy, passive fiscal policy: No equilibrium! PMP, AFP: multiple equilibria (fluctuations!)
- Galí et al (2006, JEEA): Rule-of-thumbers, Ricardian equivalence does not hold anymore, fiscal policy may help stabilizing the business cycle.

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- Separability between C and N, data do not like that (Lopez-Salido and Rabanal 2006)?
- Say hi to Jordi! He taught me almost all I know about monetary economics! (mmmhh, must have been a pretty short course ...)