"A Defence of the FOMC"
by Martin Ellison and Thomas J. Sargent

Discussant: Efrem Castelnuovo (Univ. of Padova)

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Romer & Romer (2008)

- Optimal predictions of inflation and output, weight on FOMC's forecasts: zero
- Greenbook forecasts have smaller MSFE than FOMC's
- These differences affect policy outcomes
- R&R: FOMC should take the staff's forecasts *as given*

Ellison and Sargent's defence # 1

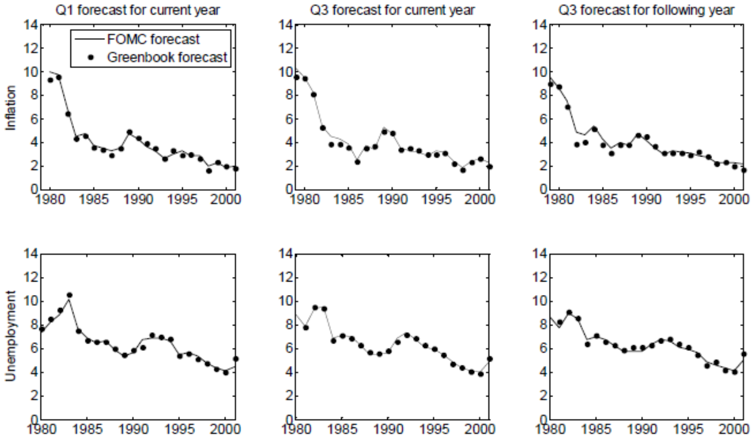

Figure 1: FOMC forecasts and Greenbook forecasts

Ellison and Sargent's defence # 2

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- FOMC's framework: Robust control - "acceptable" losses under model misspecification
- FOMC reports the worst-case scenarios!
- R&R's findings replicated with "robust control" approach

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1. model's ability to replicate key correlations
2. time varying discrepancy
3. "disaggregate view"

Correlations

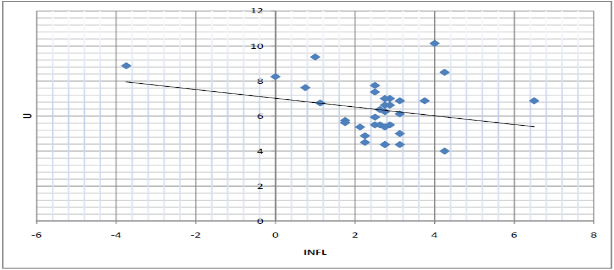

Figure: FOMC's predictions: Inflation and output.

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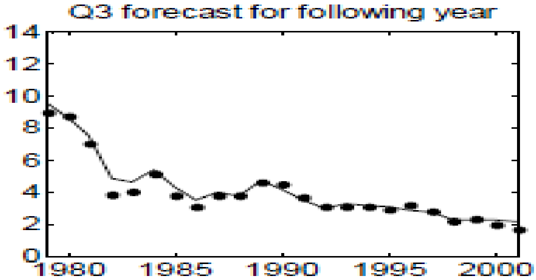
- Model's ability to grab correlations among predicted vars?

Aggregate view: Time-variation



Aggregate view

- Time-varying concern for model misspecification?
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- Imperfect credibility? Erceg and Levin (2003), Goodfriend and King (2005)

Disaggregate view

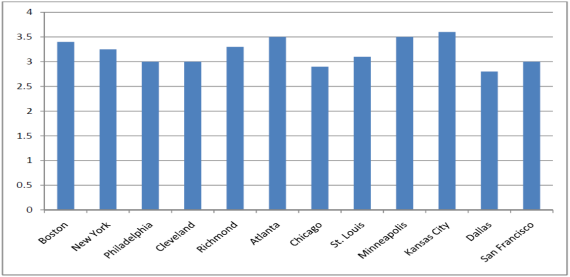

Figure: Inflation pred's, July 1992 - Source: Romer (2009).

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- Heterogeneous fears of misspecification?

Wrap up

- Fine story, offers a structural interpretation of R&R's (2008) findings
- Future analysis:

1. Correlations among predicted variables
2. Time-varing differences in predictions (FOMC vs. staff)
3. FOMC's heterogeneity