

Discussion of "Inflation Models, optimal monetary policy and uncertain unemployment dynamics: Evidence from the US and the euro area" by Altavilla-Ciccarelli

Discussant: Efram Castelnuovo (UniPD)

3rd PIERO MONCASCA Workshop
EIEF, September 19 2008

Carlo-Matteo's paper

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- US/Euro data, sample 1990:1-2006:4

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- 1 Estimated degree of uncertainty over optimal policy parameters, expected losses, IRFs: high!
- 2 'Best' model - a parsimonious one - not necessarily a good idea! Risk: huge loss
- 3 Model averaging dampens uncertainty on the effect of MP shock, leads to more plausible IRFs - e.g. no "price puzzle"

Comments

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 - 4 Miscellaneous

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- ② ZLB - optimal policies should be *implementable* if results to be reliable: negative nominal rate?

A quick exercise: LQ approach - R&S's model

- Loss function in inflation, output gap, and smoothing - calibrated as Carlo and Matteo's

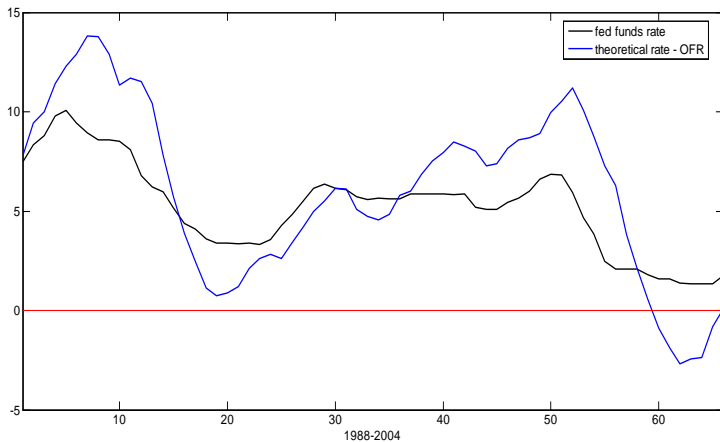
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- Difference between historical and optimal (Lucas critique)?
Violations of the ZLB?

Lucas critique/ZLB issues



Unemployment gap measure

- Unemployment gap: (minus) urate filtered with Baxter-King

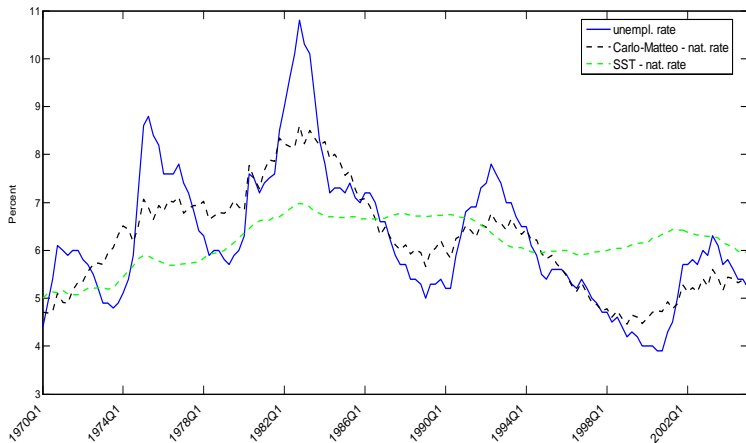
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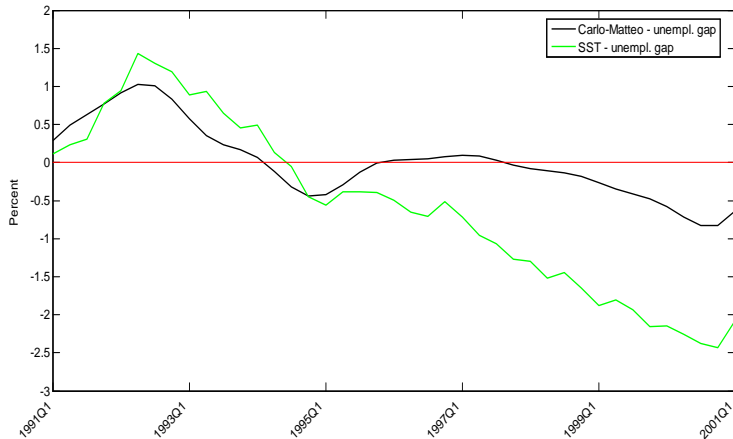
Unemployment gap measure

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- Sala, Soderstrom and Trigari (2008): microfounded measure of unemployment gap ... comparison?

Natural rates: comparison



Unempl. gaps: comparison - sample 1991Q1-2001Q1



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- Still two sided filter for the ugap? Too much information (Cogley (2008))

Miscellaneous

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- Positive or normative point? Positive point: why optimal policies (vs. standard TR)? Normative point: why the CB does not optimize conditioning *ex-ante* on the set of 128 models?

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- Next paper: RE? Simulations with NKPC suggest different dynamics - smoothing leads to anchor. inflation expectations, less volatile optimal rate ... still such a large uncertainty?