Targeting Nominal GDP or Prices: Guidance and Expectation Dynamics

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Kaushik Mitra obtained his PhD from Cornell University. He was previously a lecturer in the University of York and, before arriving at St Andrews, Professor at Royal Holloway College, University of London. He is an Associate Editor of Macroeconomic Dynamics and the Director of the Centre for Dynamic macroeconomic Analysis, University of St Andrews. He has general research interests in macro and monetary economics especially in the field of formation of expectations in macroeconomic models. His paper “Learning about Monetary Policy Rules” with James Bullard in the Journal of Monetary Economics (2002) is heavily cited with at least 165 citations to date in the Scopus bibliographic database of academic journal articles.

[Abstract] We examine global dynamics under infinite-horizon learning in New Keynesian models where monetary policy practices either price-level or nominal GDP targeting and compare these regimes to inflation targeting. These interest-rate rules are subject to the zero lower bound. Robustness of the three rules in learning adjustment are compared using criteria for the domain of attraction of the targeted steady state and volatility of inflation and output. Performance of price-level and nominal GDP targeting dramatically improves if the additional guidance in these regimes is incorporated in private agents' learning.