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# Discussion of “The Federal Reserve’s Framework for Monetary Policy – Recent changes and New Questions”

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# DISCUSSION OF “THE FEDERAL RESERVE’S FRAMEWORK FOR MONETARY POLICY”

By English, López-Salido, and Tetlow

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Christina Romer  
IMF Annual Research Conference  
November 8, 2013

# Paper's Research Strategy

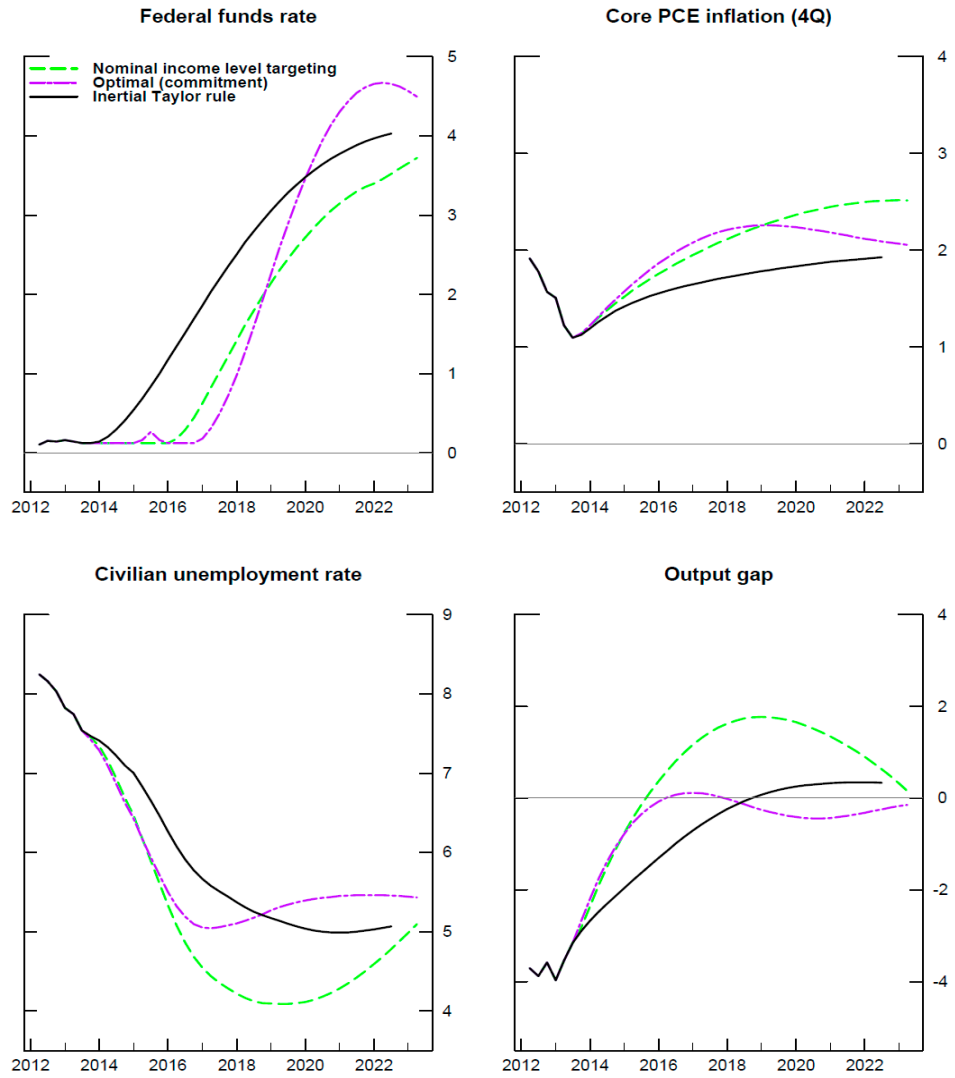
- Mini FRB/US model.
- Start at current conditions
- Find optimal monetary policy conditional on a loss function that includes a cost to changing the funds rate rapidly.
- Simulate model under a number of possible rules for the funds rate.

# Results for Nominal GDP Targeting

- Model nominal GDP path target as just another rule for the funds rate.

<b>Taylor (1993) rule</b>	$R_t = rr^* + \pi_t + 0.5(\pi_t - \pi^*) + 0.5gap_t$
<b>Taylor (1999) rule</b>	$R_t = rr^* + \pi_t + 0.5(\pi_t - \pi^*) + gap_t$
<b>Inertial Taylor (1999) rule</b>	$R_t = 0.85R_{t-1} + 0.15(rr^* + \pi_t + 0.5(\pi_t - \pi^*) + gap_t)$
<b>First-difference rule</b>	$R_t = R_{t-1} + 0.5(\pi_{t+3 t} - \pi^*) + 0.5\Delta^4 gap_{t+3 t}$
<b>Nominal income targeting rule</b>	$R_t = 0.75R_{t-1} + 0.25(rr^* + \pi_t + yn_{t+4 t} - yn_{t+4}^*)$

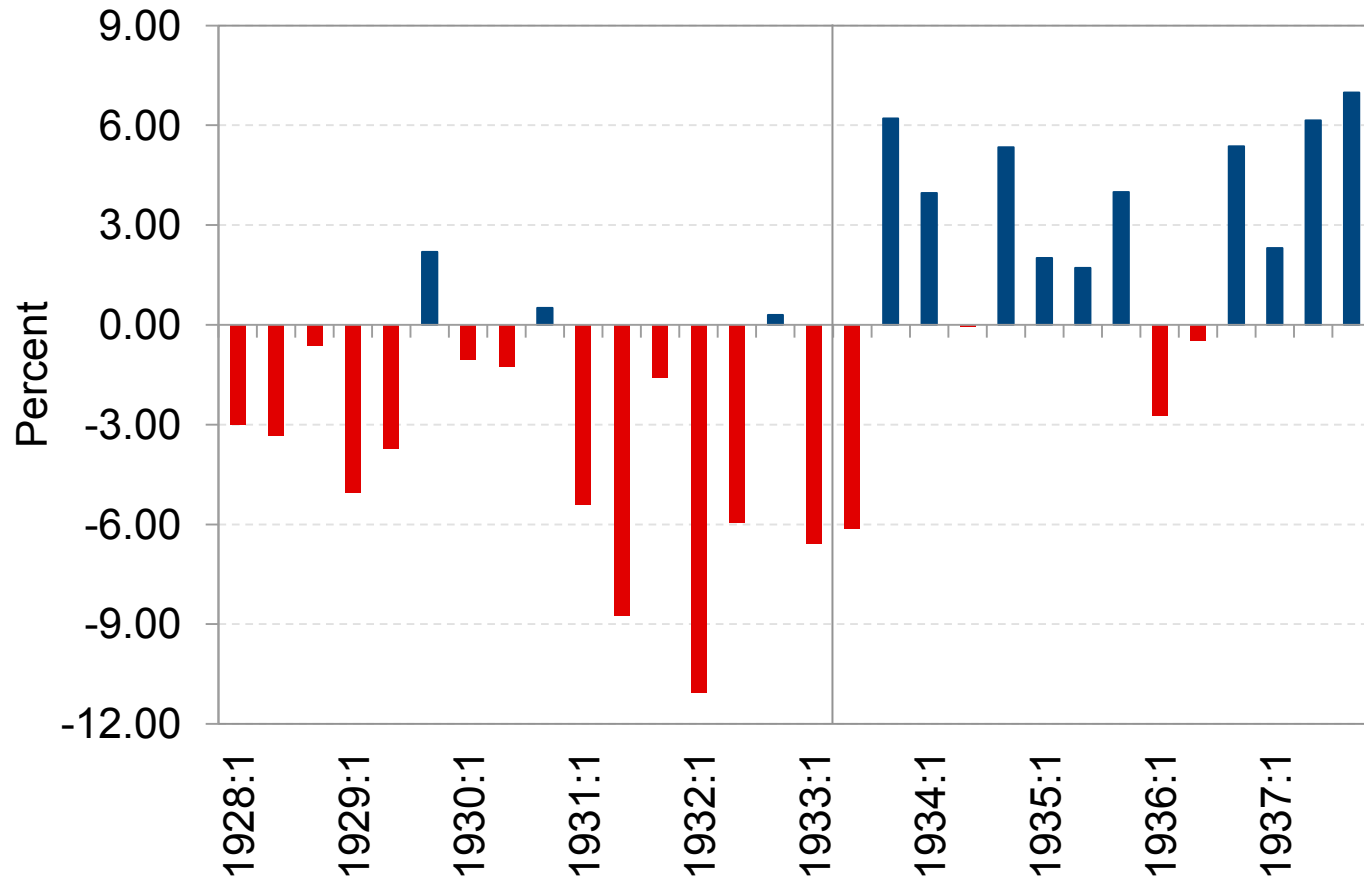
**Figure 11**  
**Nominal income level targeting**  
**(Baseline conditions)**



# How is the analysis too narrow?

1. Assumes credibility of monetary policy.
  - Exactly what may be most important about a nominal GDP level target is that it builds credibility.
  - It is a form of communication and commitment device.

# Expected Inflation in the 1930s



Source: Hamilton, "Was the Deflation During the Great Depression Anticipated?"

# How is the analysis too narrow?

2. Nominal GDP target is more than a rule for the funds rate.
  - It is a commitment by the Federal Reserve to do whatever it takes to return to the path.
  - Would lead to the use of other tools.



## How is the analysis too narrow?

3. Data revisions are unlikely to be an insuperable impediment.
  - Data revisions are an issue with any rule.
  - There are surely work-arounds.

# Directions for Future Research

- Work on what determines credibility and, hence, what actually moves expectations.
- Work on the determinants of inflation behavior.
- Data-intensive, empirical and historical research.