

Lessons for Monetary Policy What should be Consensus?

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Flexible Inflation Targeting – Still State of the Art?

“The case for the basic monetary policy strategy, which for want of a better name, I have called flexible inflation targeting, is still as strong as ever, and in some ways, more so.”

Mishkin

“In the end, my main conclusion so far from the crisis is that flexible inflation targeting, applied the right way and using all the information about financial factors that is relevant for the forecast of inflation and resource utilization at any horizon, remains the best-practice monetary policy before, during, and after the financial crisis.”

Svensson

Consensus

- Quantitative Definition of Final Objective
- Forward-Looking Policy
- Transparency
- Communication

Open Questions

- Role of the Inflation Forecast
 - › A comprehensive Summary?
- Time Horizon
- Role of Money and Credit

Monetary Policy and Asset Prices I

- The Jackson Hole Consensus
 - › Central Banks should not target Asset Prices
 - › Central Banks should not try to prick a Bubble
 - › Central Banks should follow a „mop-up“ Strategy

An asymmetric Approach

- › Risk of increasing Bubbles
- › Risk of Moral Hazard

Monetary Policy and Asset Prices II

- Identification of a Bubble?
- The Role of Money and Credit
- Leaning against the Wind?
 - › Small Changes in Spreads – Substantial Effect (Leverage/Maturity Mismatch)
 - › Communication as Signalling Device
 - › Early Action might work against Herd Behaviour

Misguided Complacency

“...I worry that we have been lulled – or we have lulled ourselves – into a sense of complacency which is not warranted. There are still many issues we do not understand, and these may come back to bite us with a vengeance in the future.”

Blanchard

Elegance vs. Robustness

The Two-Pillar Strategy of the ECB

- Economic Analysis
- Monetary Analysis
- Cross-Checking

Short-Term Activism vs. Medium-Term Orientation

More Lessons?

- The Zero-Bound – Raising the Inflation Rate?
- Dual vs. Single Mandate?
- Price Stability vs. Financial Stability

References

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