Comments of “Aggregate Supply in the United States: Recent Developments and Implications for the Conduct of Monetary Policy”

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Discussion of Reifschneider, Wascher, and Wilcoxon

Greg Mankiw

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A minute on Stan Fischer

Photo Credit: Bob Gordon
This is an annoying paper to discuss.
A few key take-aways

• Supply versus Demand Shocks: Not so clear.
• Recent events: After 2007, potential GDP growth slowed from 2.6 to 1.3 percent per year.
• Uncertainty about the natural rate of unemployment: the 95 percent confidence interval is about 4.5 to 7 percent.
• Hysteresis and optimal monetary policy: They say monetary policy should be more accommodative.
How do hysteresis effects work?
Is this the right objective function?

\[ L_{t_0} = E_t \sum_{j=0}^{N} \beta^j \left\{ \alpha_1 \left( U_{r_{0+j}} - U^*_{r_{0+j}} \right)^2 + \alpha_2 \left( \pi_{r_{0+j}} - 2 \right)^2 + \alpha_3 \left( \Delta R_{r_{0+j}} \right)^2 \right\}. \]
The Bottom Line

• This paper raises key issues about hysteresis.
• But its analysis of policy builds on some questionable assumptions.
• Need more research.
• This paper is a good place to start.