

# **Economics of central banking (Zentralbanktheorie und Zentralbankpolitik)**

## **Monetary policy strategies: complements**

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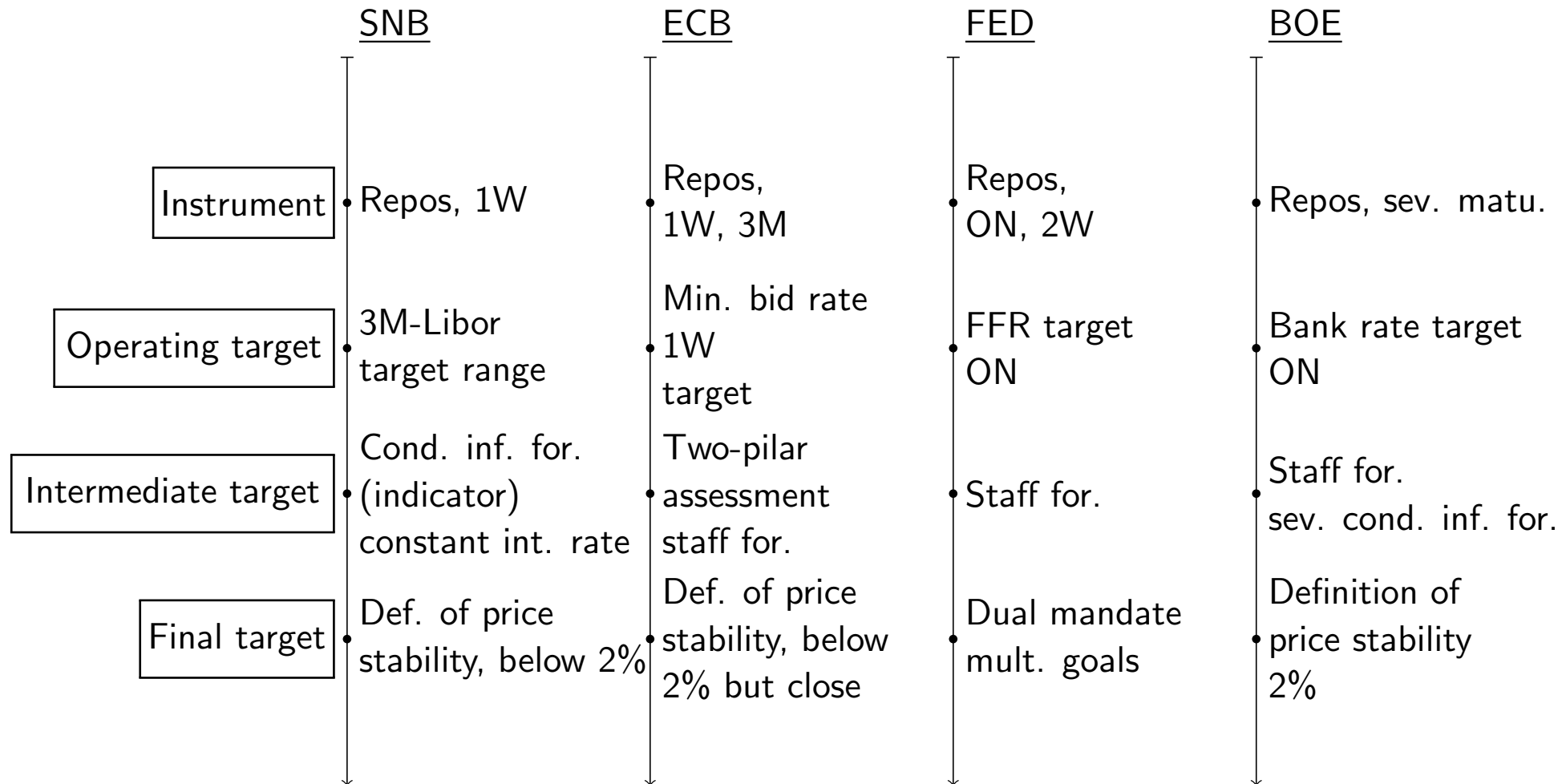
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`http://cuche.net/classes.htm`

These slides present the main elements of the course 7,280; they are based on several papers and books (e.g. Walsh, 2003, Galí, 2008) whose references are given during the term; a separate reading list for the exam will be given after the term break.

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## Strategies of other central banks



## Guiding principles, what should central banks do?

### □ Mishkin (2000)

- i) price stability provides substantial benefits to the economy
- ii) align fiscal policy with monetary policy
- iii) time inconsistency is a serious problem to be avoided
- iv) monetary policy should be forward looking
- v) policymakers should be accountable
- vi) monetary policy should be concerned with output as well as price fluctuations
- vii) the most economic downturn are associated with financial instability

### □ Critical assessment

- i) see empirical evidence about growth and inflation, optimal inflation rate (e.g. time inconsistency slides), problems of measures (e.g. SNB report)
- ii) fiscal burden (printing press for the government, optimal currency area and asymmetric shocks)
- iii) see time inconsistency slides
- iv) long and variables lags (see empirical evidence e.g. IRF after monetary policy shocks)
- v) eg. SNB report and visit to the parliamentary commissions
- vi) eg. SNB strategy, NBA, hierarchy of goals vs. multiple goals
- vii) asset price inflation targeting vs. CPI inflation targeting

## Scoreboard of central banks

	<u>SNB</u>	<u>ECB</u>	<u>FED</u>	<u>BOE</u>
Price stability (i,ii,vi)	• yes, exp. def.	• yes, exp. def.	• yes, not overr.	• yes, exp. def.
Nominal anchor (iii)	• ✓	• ✓	• ⊗	• ✓
Goal dependence (iii)	• ~	• ~	• ~	• ✓
Instrument indepen. (iii)	• ✓	• ✓	• ✓	• ✓
Accountability (v)	• ✓	• ✓	• ✓	• ✓
Communication (iv)	• ✓	• ✓	• ✓	• ✓
Financial stability goal (vii)	• ~, contribution	• ~	• ~, mult.	• ~

Comments: price stability (definition vs. no definition); goal definition (broad vs. narrow); accountability (form); communication (form and transparency); financial stability (asset price targeting vs. systemic risk)