

Capital Controls and Optimal Chinese Monetary Policy: Erratum[☆]

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There was a coding error in the calibration of the paper Chang et al. (2015), where the steady state value of R was not set to equal the value for $R^*\gamma_e$, where γ_e is the growth of the nominal exchange rate and is normalized to one in the steady state. We corrected this error, and the qualitative impulse response functions are similar to those in the text, as shown in the following figures.

As before, Figure 1 (which corresponds to Figure 4 in the text) shows that, in response to a negative foreign interest rate shock, the planner chooses less sterilization, letting the money supply and inflation increase. A modest difference is that we obtain a slight increase in the nominal interest rate instead of a small decline reported in the paper. Figure 2 (which corresponds to Figure 5 in the text) also shows similar dynamics, with the only notable exception being the more plausible increase in the money supply in the wake of a negative foreign demand shock, as the planner responds by easing monetary policy.

We do obtain modestly different welfare results. In particular, opening the capital account without allowing the exchange rate to float leads to a slight deterioration of welfare (of about 0.0011 percent of consumption equivalent). This is surprising, but not implausible, since the degree of capital account openness is a parameter set exogenously in our model (the parameter Ω_b), and is taken

[☆]The views expressed herein are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

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as given by the planner.

Still, in light of this result, we reconsidered our specification of Ω_b for the counterfactual policy of opening China's capital account. As discussed in the paper, we consider the value of $\Omega_b = 0.22$ to be a lower-bound estimate for China, as the capital accounts of most of the countries in our sample for estimating Ω_b are more open than we would consider a possible policy alternative for China (see the discussion in page 10 of the paper). For this reason, we consider a modestly higher value of Ω_b (0.3 instead of 0.22) for the counterfactual policy of opening China's capital account. We obtain similar qualitative welfare results to those in the text. Our new results under this calibration for macroeconomic stability and welfare are shown in Table 1 below.

References

Chang, C., Liu, Z., Spiegel, M.M., 2015. Capital controls and optimal chinese monetary policy. *Journal of Monetary Economics* 74, 1–15.

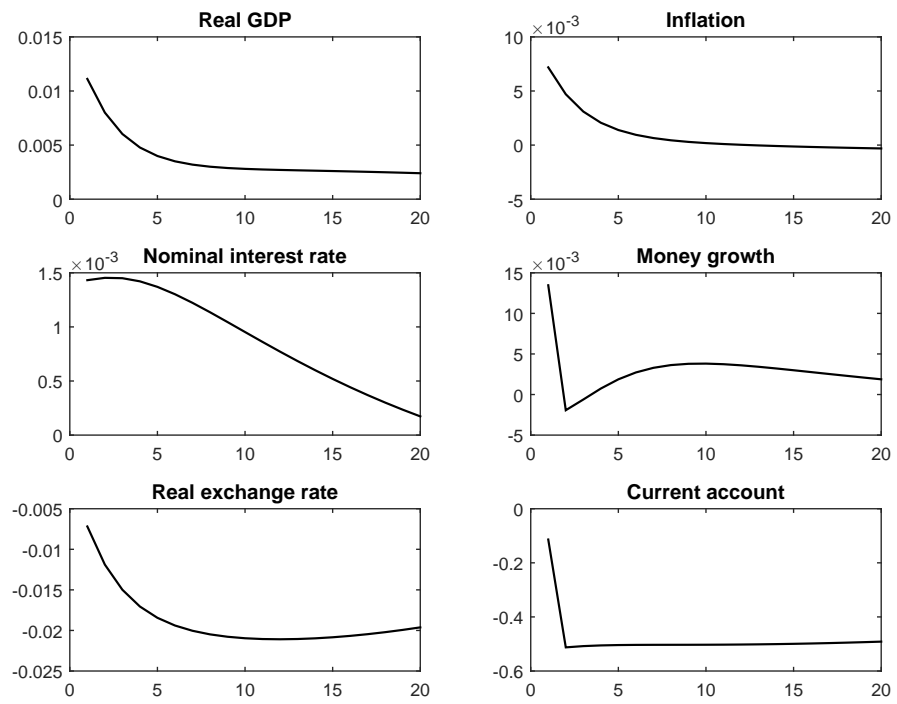


Figure 1: Impulse responses to a decline in the foreign interest rate in the benchmark model.

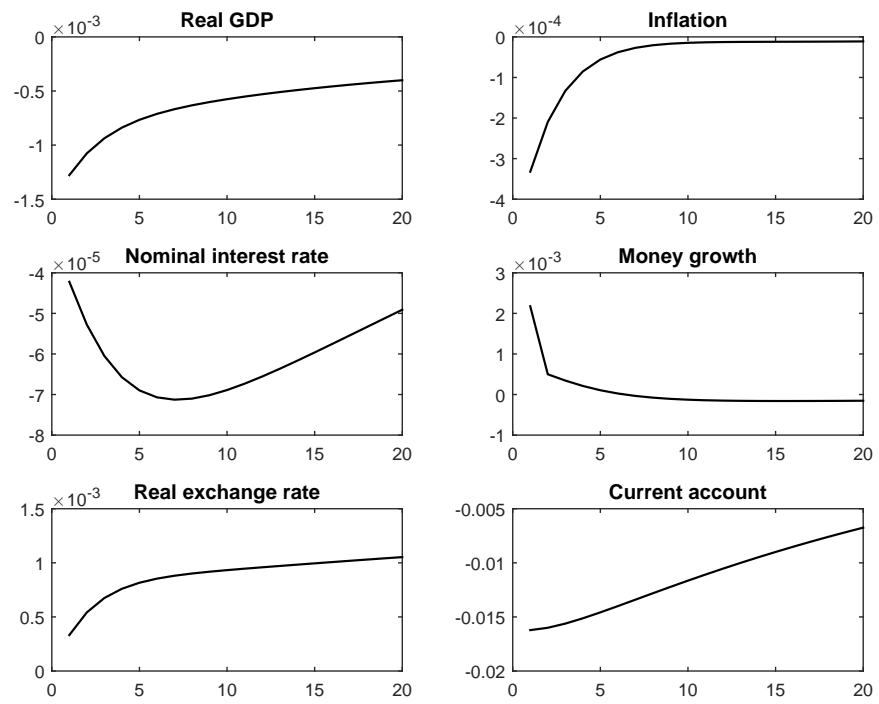


Figure 2: Impulse responses to a decline in export demand in the benchmark model.

Table 1: Macroeconomic stability and welfare under alternative policy regimes

	Benchmark	Open capital account	Flexible exchange rate	Full reform
σ_y	0.0285	0.0296	0.0078	0.0068
σ_π	0.0106	0.0112	0.0056	0.0082
σ_L	0.0241	0.0239	0.0150	0.0174
σ_q	0.1899	0.1870	0.0926	0.1007
σ_{ca}	3.6873	3.5944	3.3412	3.2838
Welfare gains	—	0.0002	0.0103	0.0080

Note: The terms σ_y , σ_π , σ_L , σ_q , and σ_{ca} denote the standard deviations of real GDP, inflation, employment, the real exchange rate, and the current account.