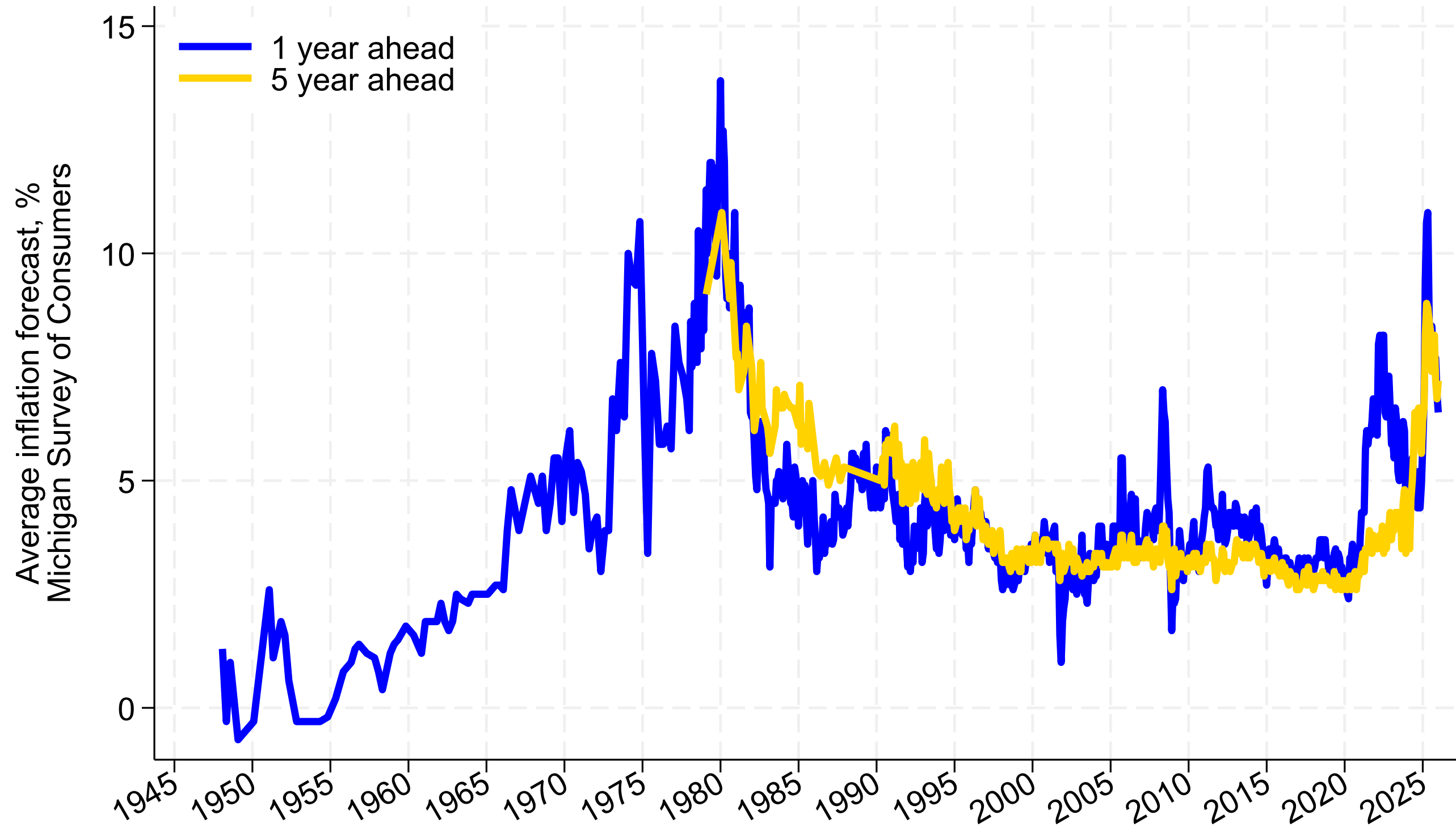


MONETARY POLICY WITHOUT AN ANCHOR

Discussion by
Yuriy Gorodnichenko
UC Berkeley and 

WHAT A TIMELY TOPIC!



COMMENT #1:

WHOSE EXPECTATIONS SHOULD WE LOOK AT?

WHOSE AND WHICH EXPECTATIONS WE SHOULD CARE ABOUT

	Inflation expectations	
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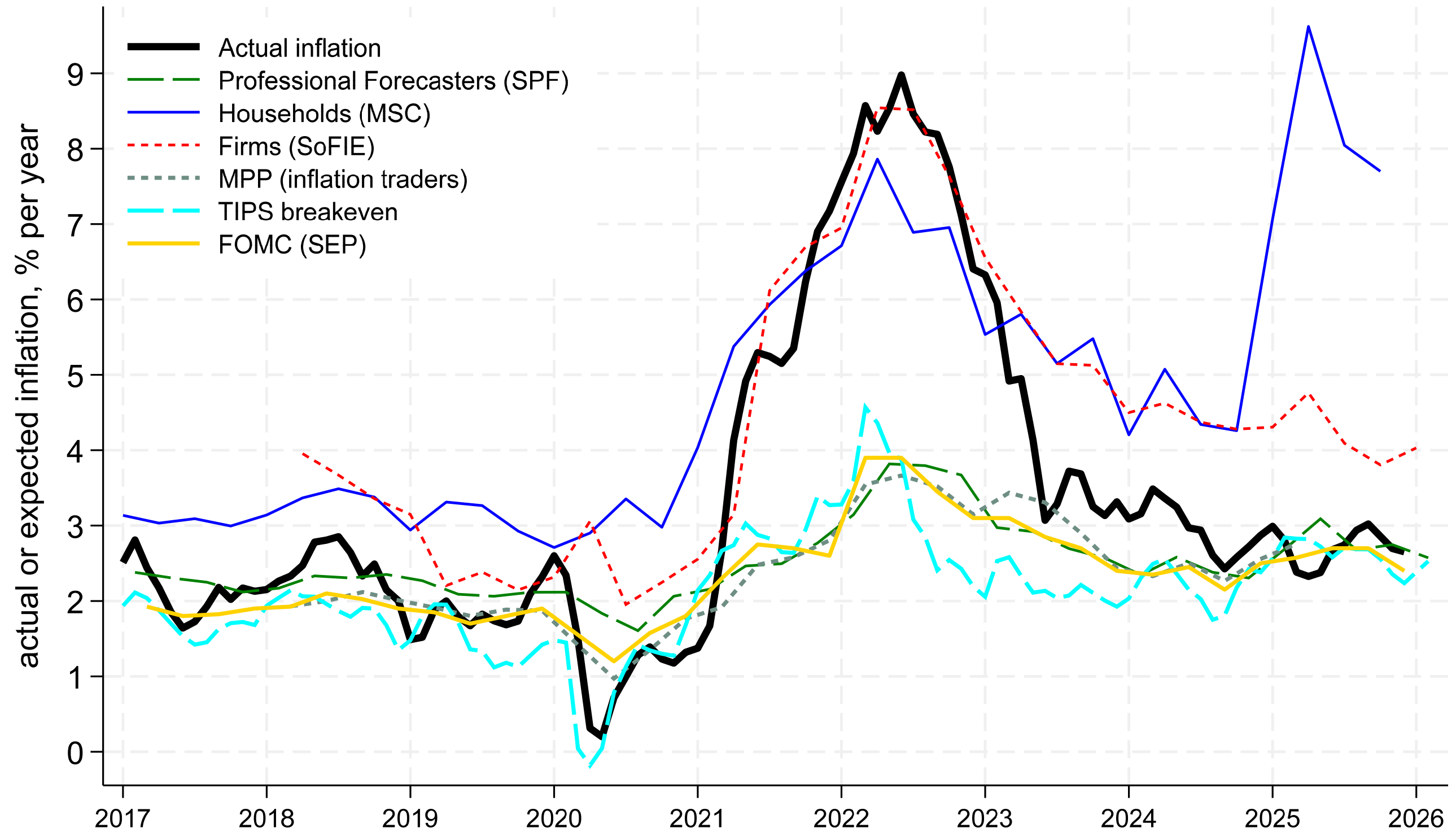
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For the majority of economic decisions, it is short-run inflation expectations that matter.

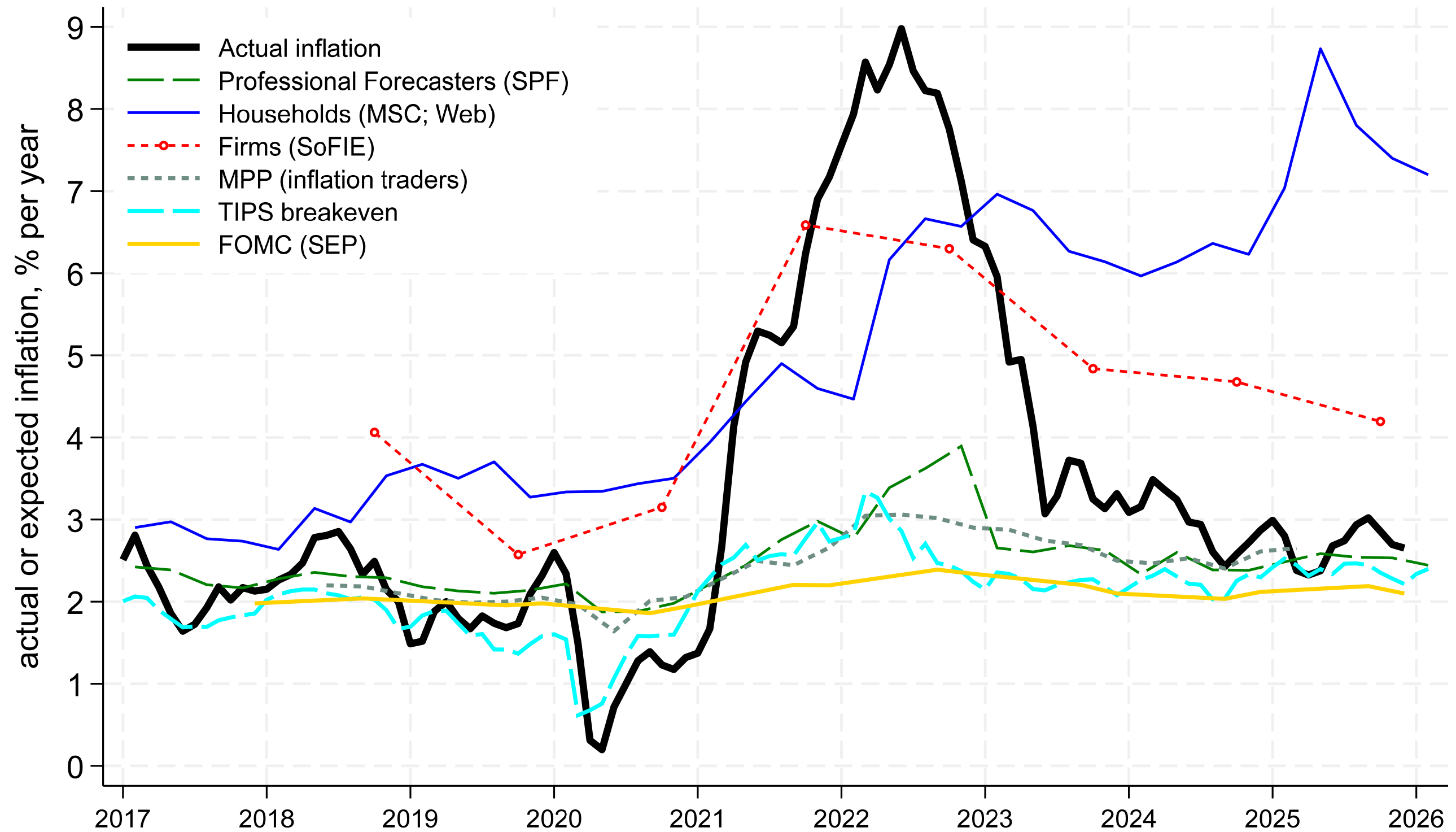
COMMENT #2

ARE INFLATION EXPECTATIONS ANCHORED?

SR INFLATION EXPECTATIONS SINCE THE SURGE: **UNANCHORED**



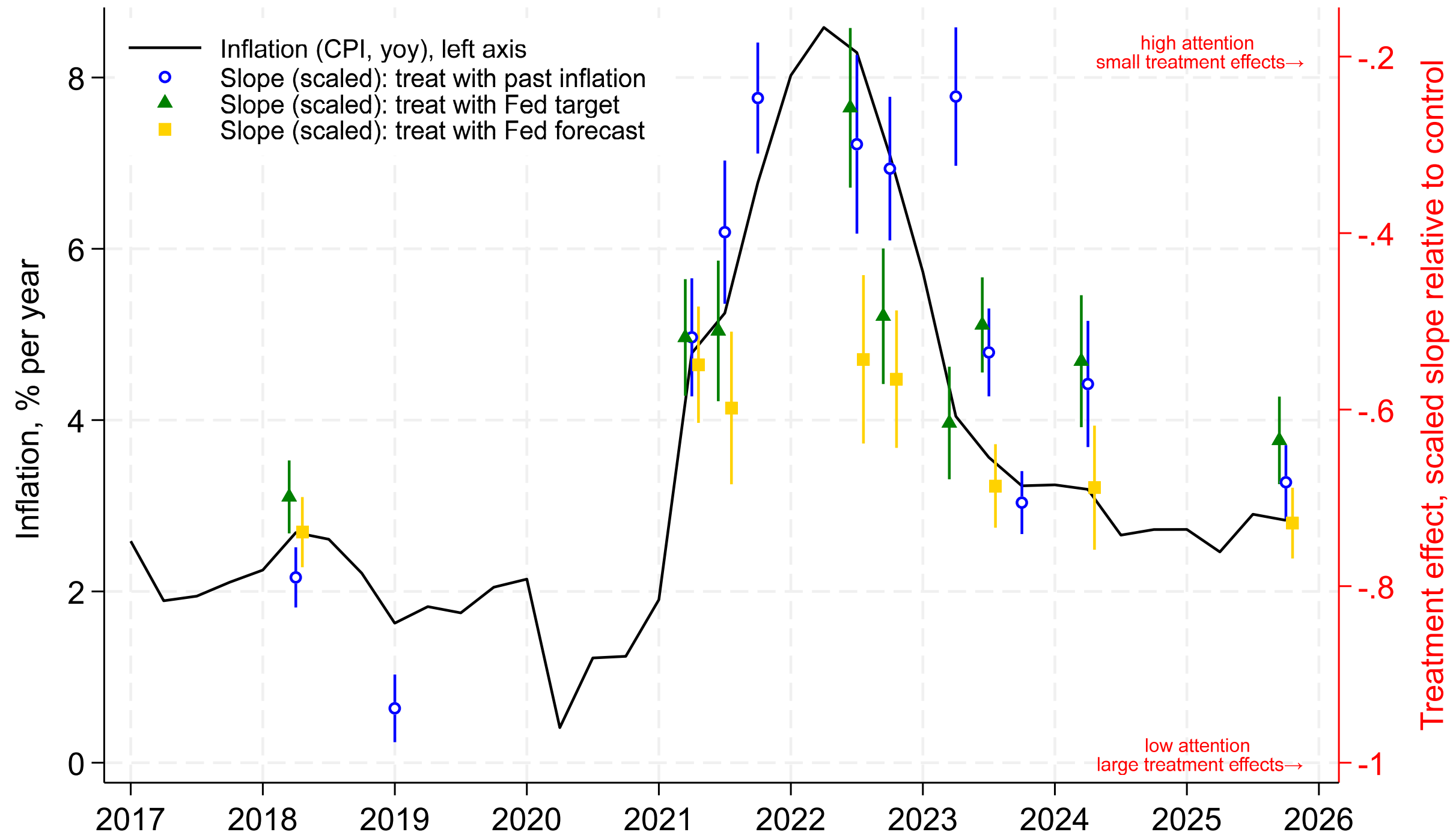
LR INFLATION EXPECTATIONS SINCE THE SURGE: **UNANCHORED**



COMMENT #3:

HOW INSENSITIVE ARE EXPECTATIONS TO SHOCKS?

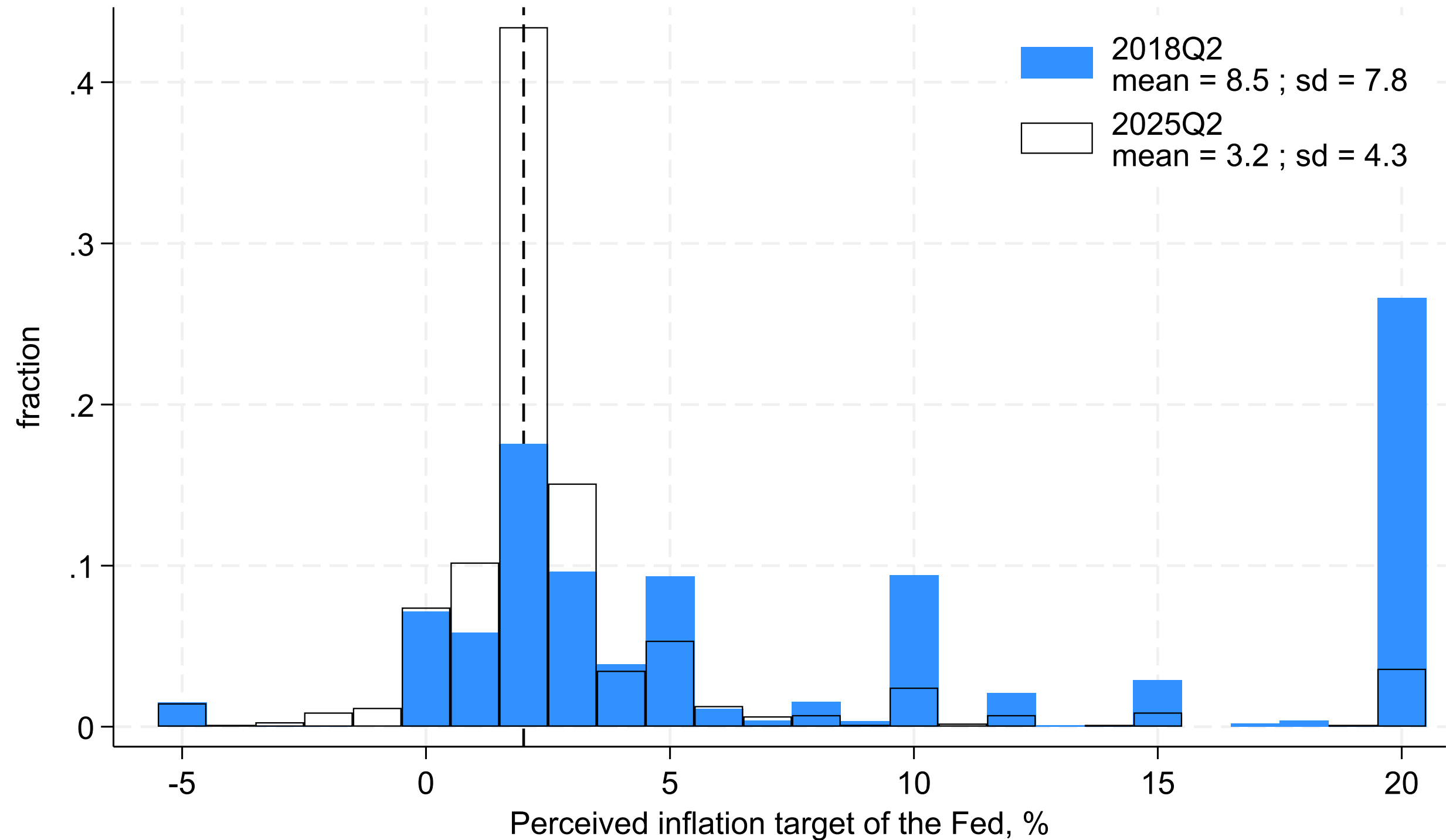
SENSITIVITY TO INFORMATION TREATMENTS



Good news: People respond to information about the Fed.

Bad news: During the surge, people became attentive and learned about inflation and the target.

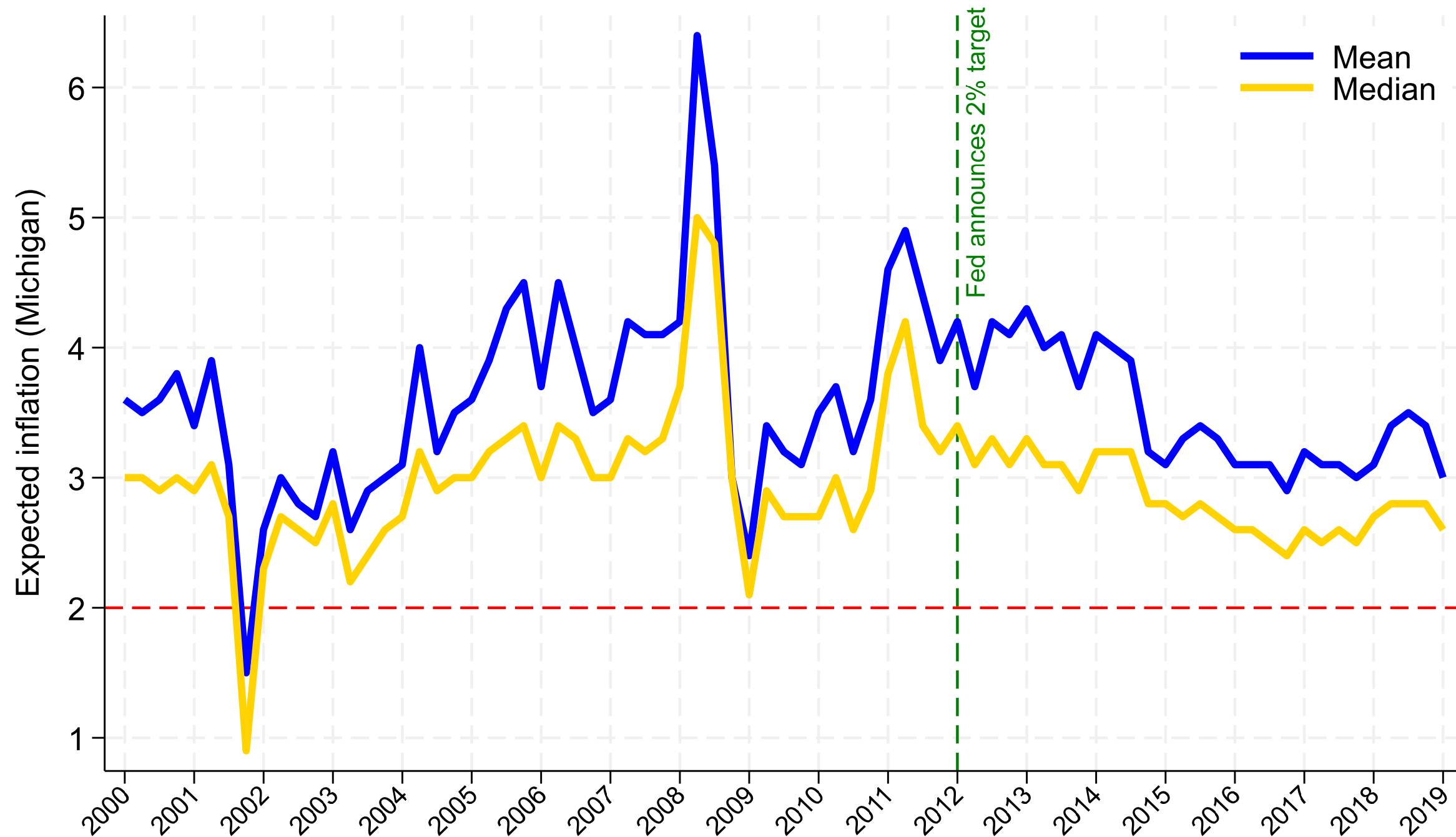
CREDIBILITY VS. ATTENTION (KNOWLEDGE)



People learned that the Fed was failing.

And despite being more informed about the inflation target, they predict high inflation.

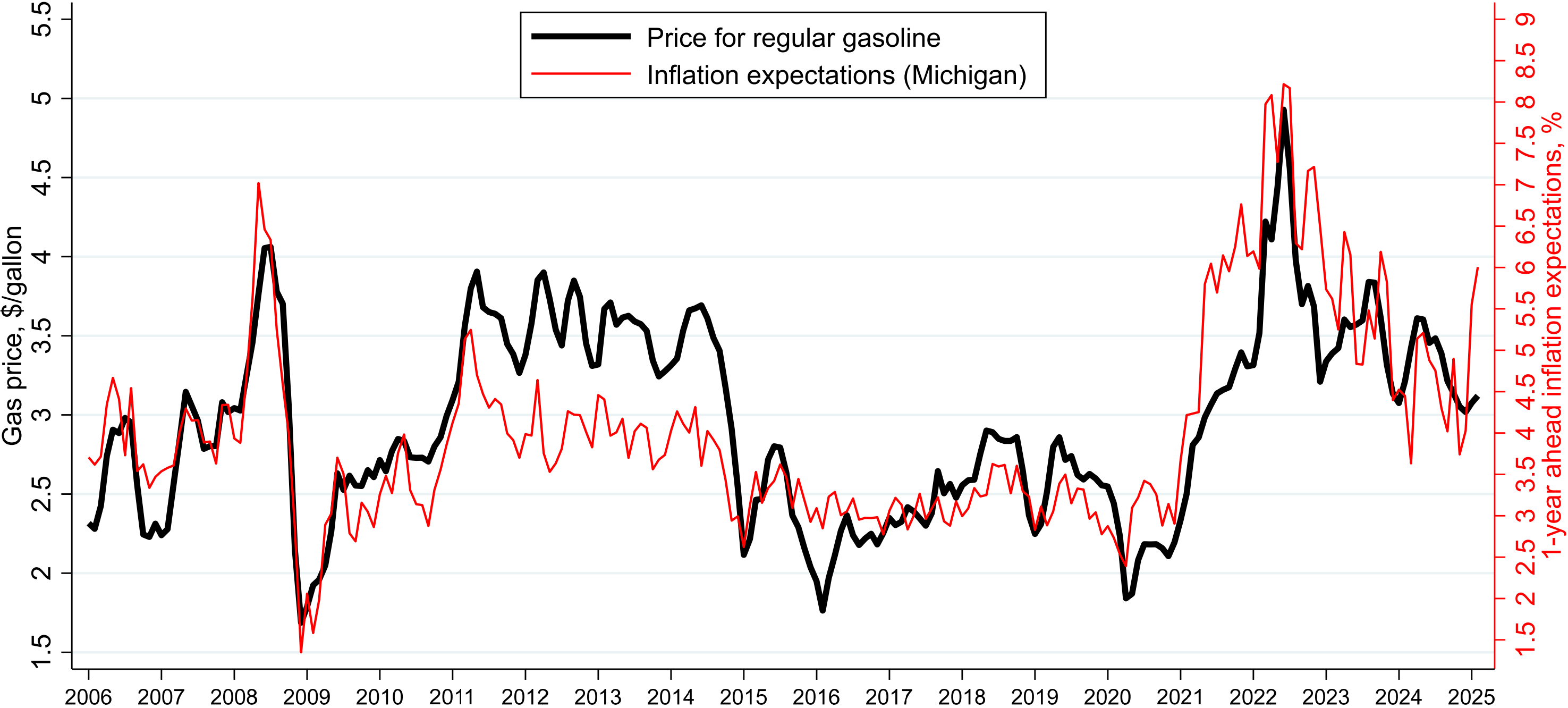
CREDIBILITY VS. ATTENTION (KNOWLEDGE) II



The announcement of the 2% inflation target in 2012 did not move inflation expectations:
1) people did not know or care; 2) expectations were already anchored.

COMMENT #4:
WHAT DRIVES INFLATION EXPECTATIONS?

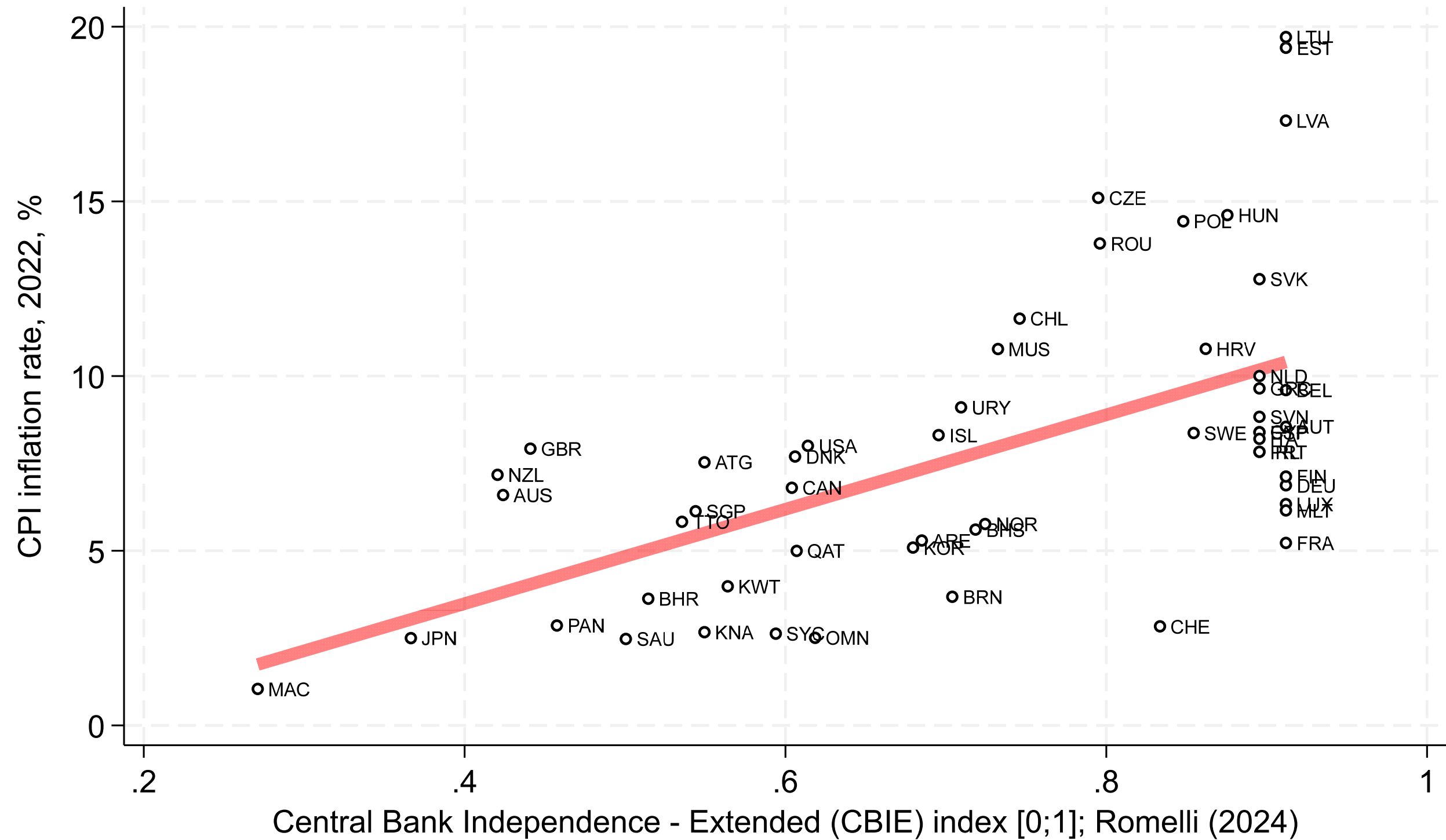
INFLATION EXPECTATIONS AND THE PRICE OF GASOLINE



COMMENT #5:

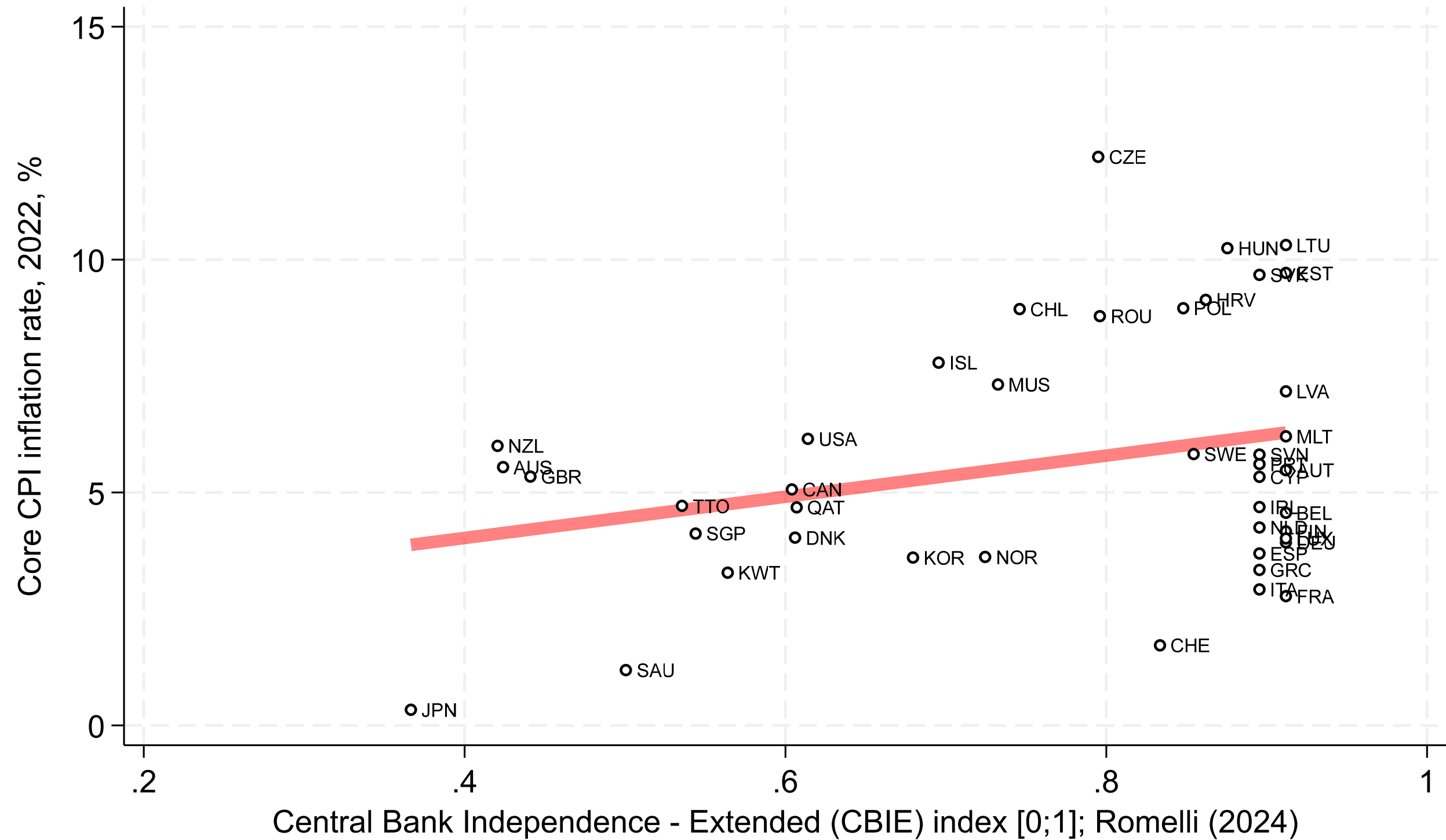
HOW DOES CREDIBILITY CORRELATE WITH INFLATION?

INFLATION VS. CENTRAL BANK INDEPENDENCE (\approx CREDIBILITY)



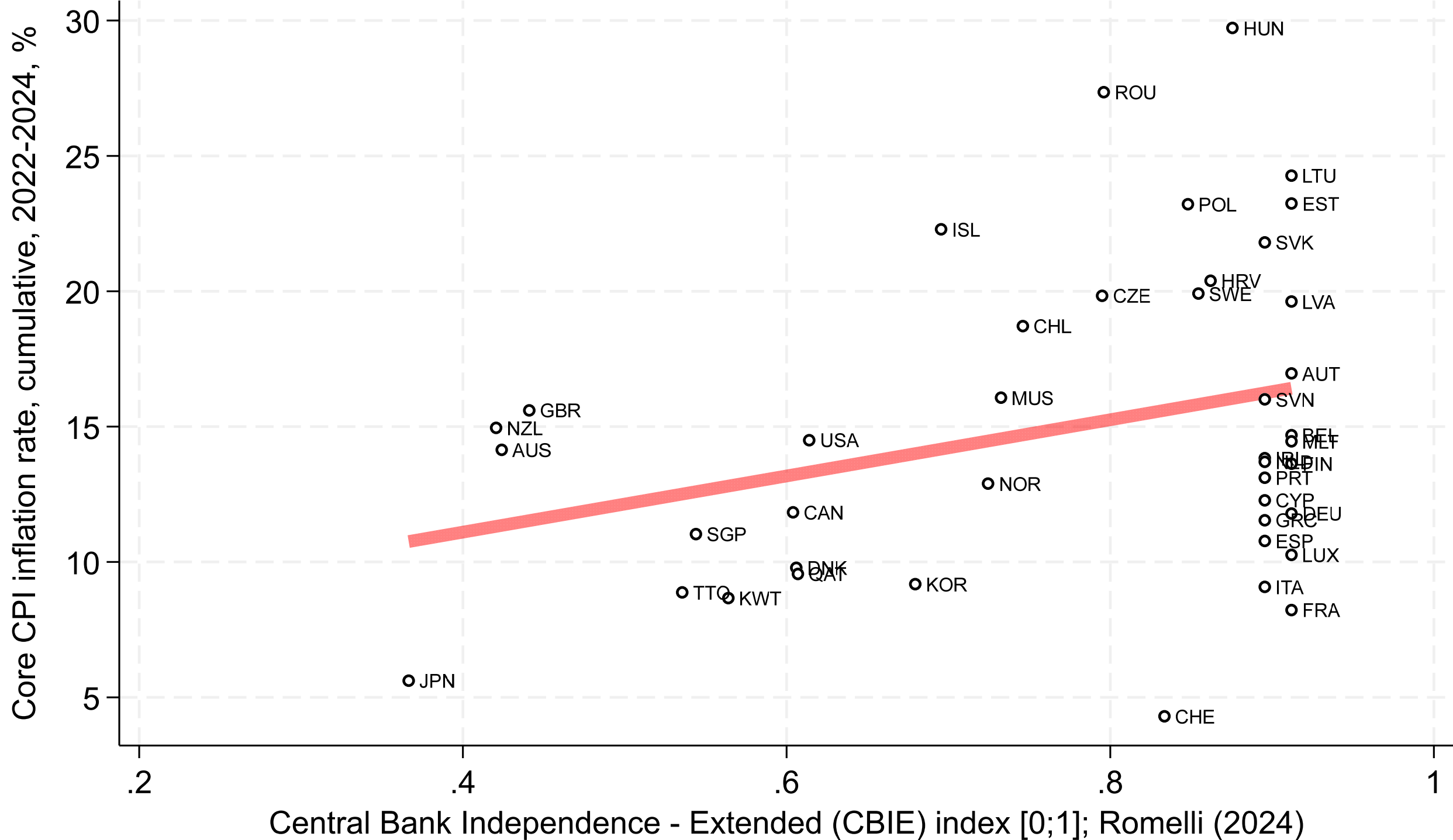
Inflation and CBI are **positively** correlated.

INFLATION VS. CENTRAL BANK INDEPENDENCE (\approx CREDIBILITY)



Core Inflation and CBI are **positively** correlated.

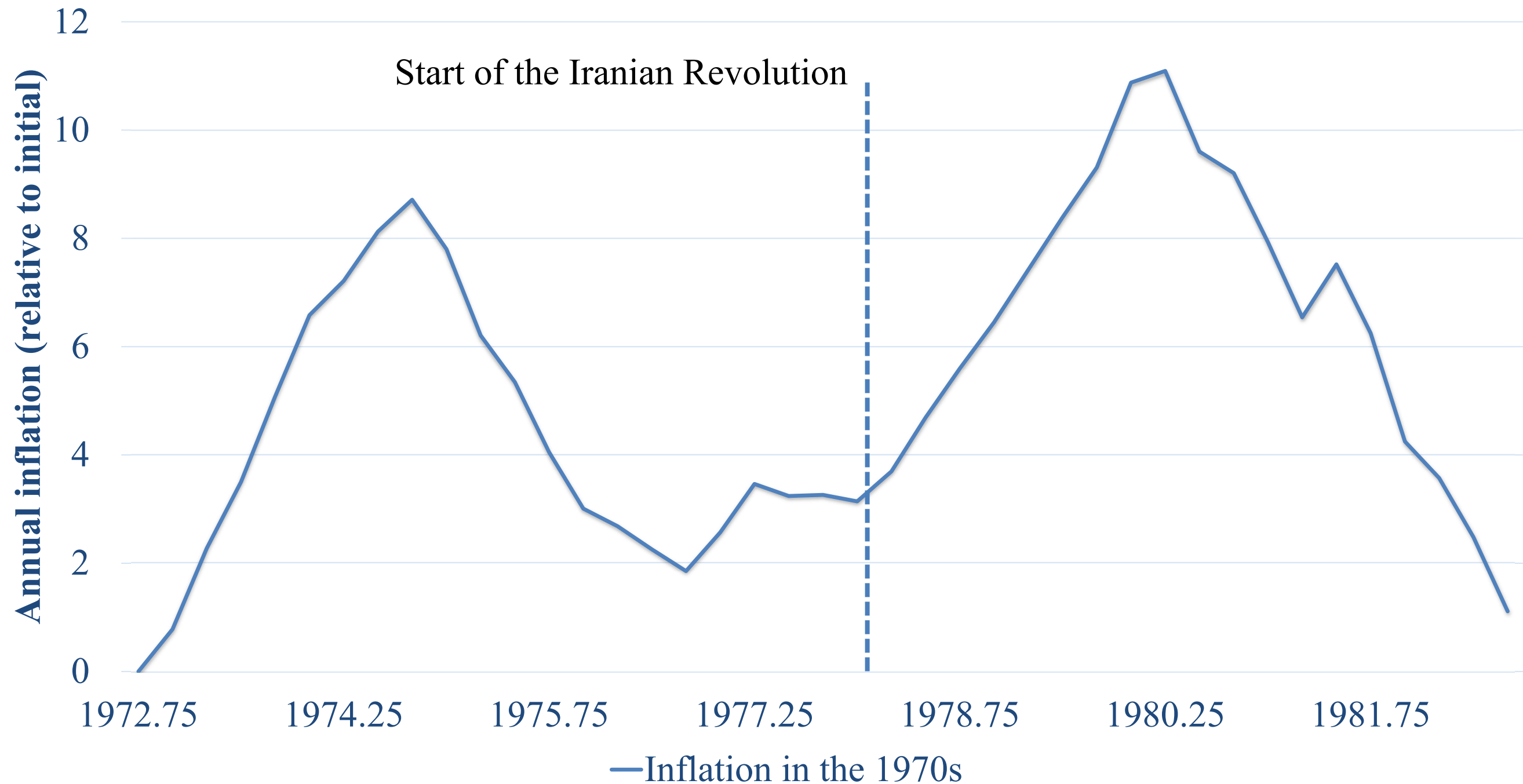
INFLATION VS. CENTRAL BANK INDEPENDENCE (\approx CREDIBILITY)



Cumulative Core Inflation and CBI are positively correlated.

COMMENT #6:
IS TODAY DIFFERENT FROM THE 1970s?

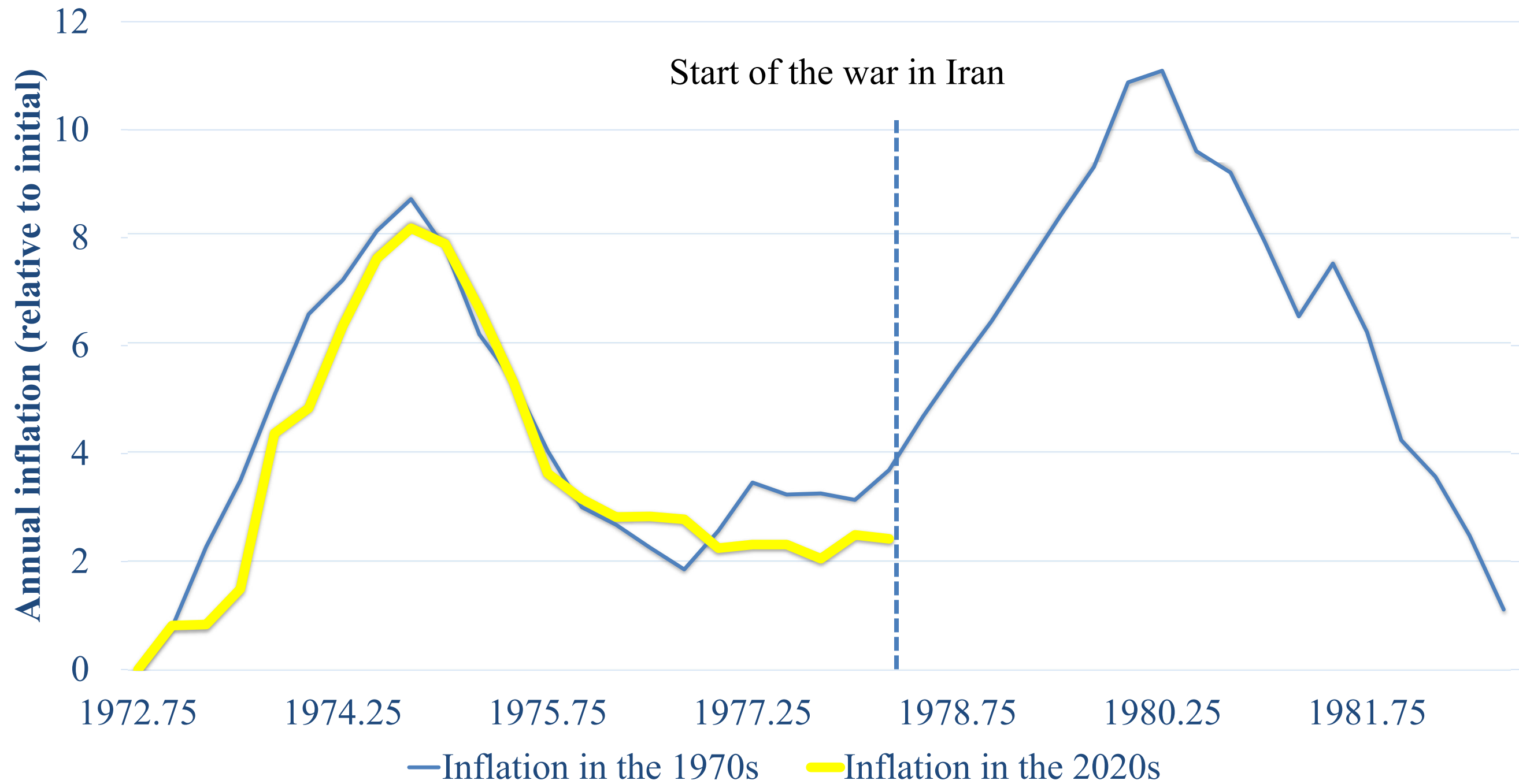
INFLATION IN THE 1970S AND TODAY



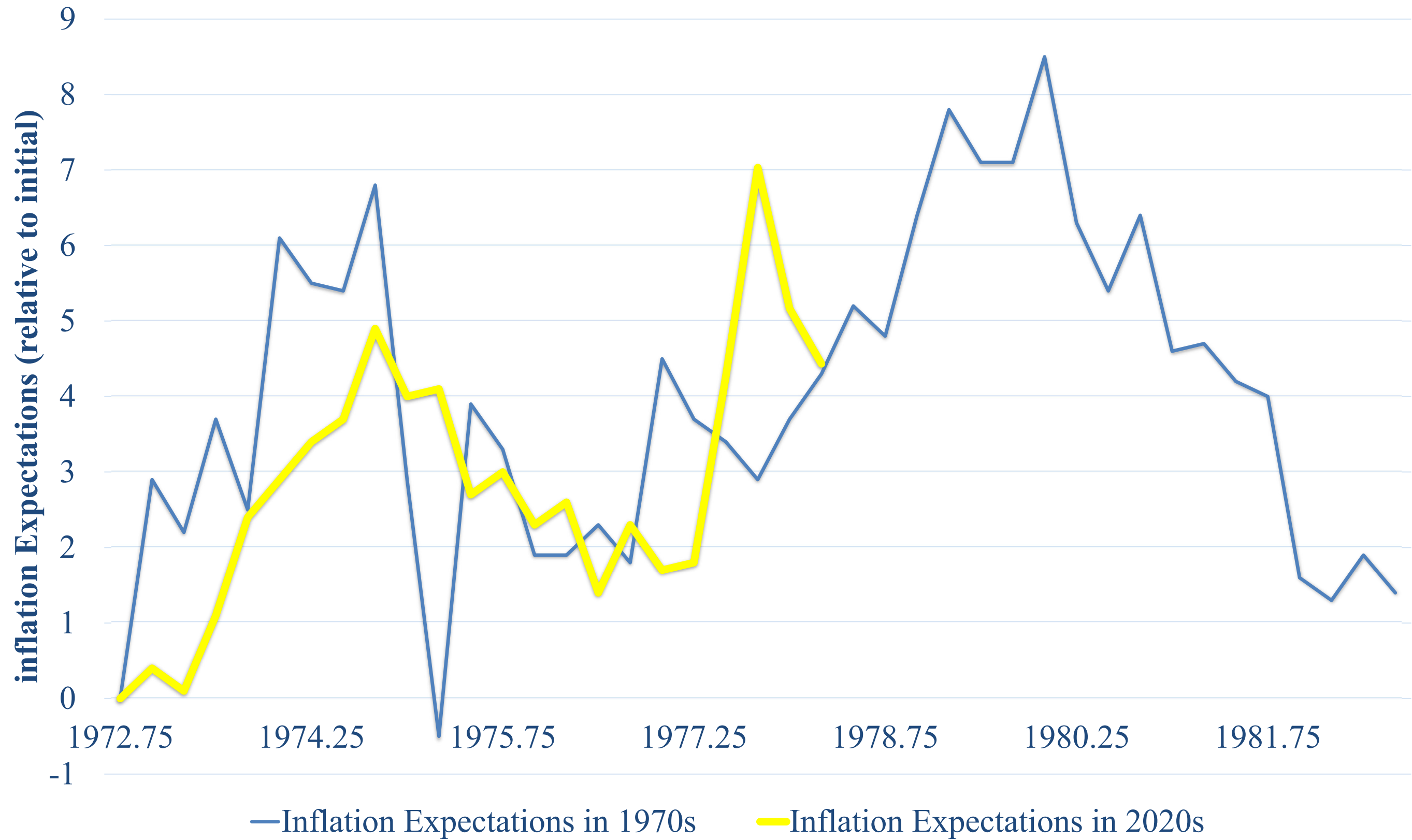
Jerome Powell (Fed Chair) — Aug. 26, 2022 (Jackson Hole)

“During the **1970s**, as inflation climbed, **the anticipation of high inflation became entrenched** in the economic decision-making of households and businesses.”

INFLATION IN THE 1970S AND TODAY



EXPECTATIONS BROADLY TRACK DYNAMICS DURING “UNANCHORED” 1970s



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I agree with the theoretical points of the paper. I am skeptical about the empirical part.

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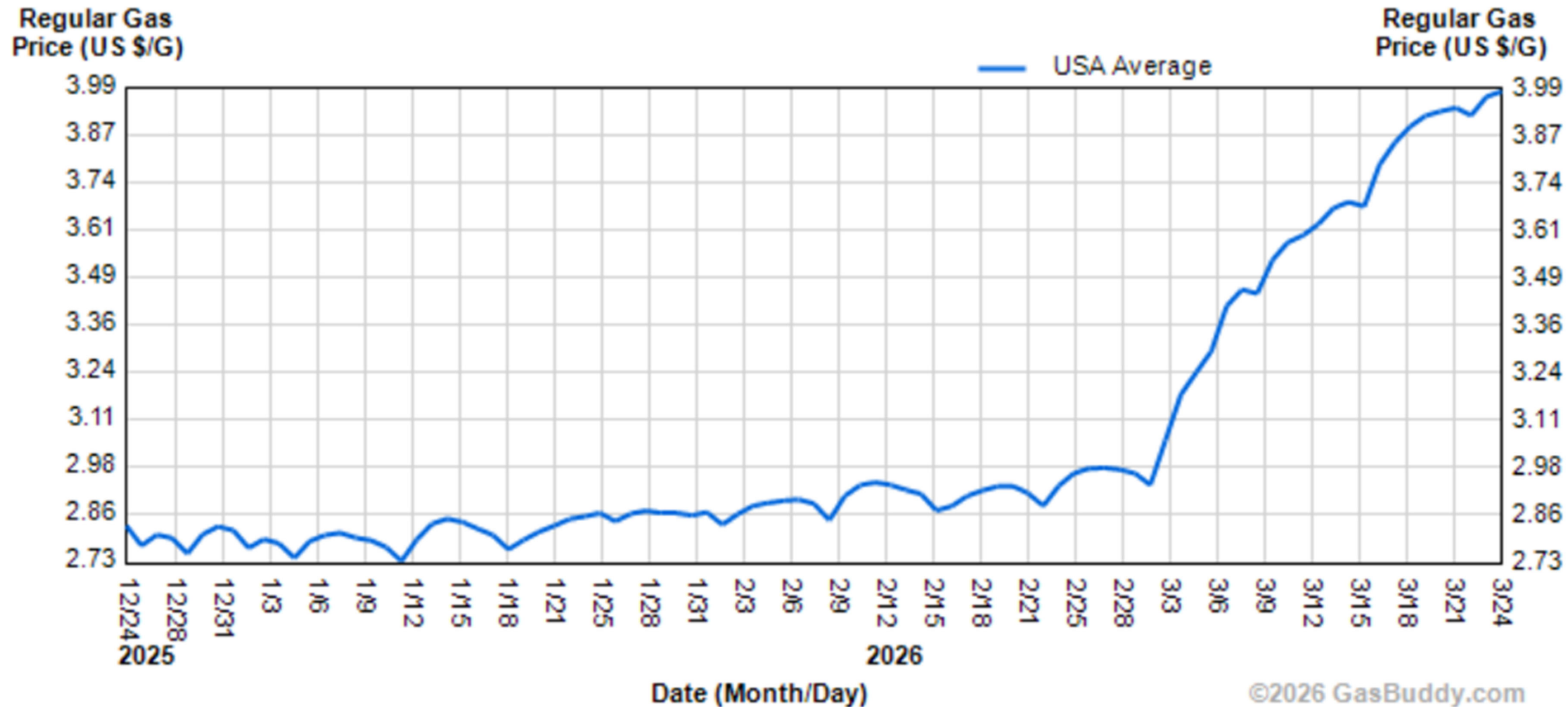
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- Credibility (proxied with central bank independence indices) gives a wrong correlation with inflation.

DAILY PRICE OF GASOLINE

3 Month Average Retail Price Chart



“Most economists of my generation have made a career of analyzing so-called "tradeoffs" between inflation and employment... **When expectations of future inflation are so strong and potentially volatile as they have become, the "tradeoffs" disappear...**” Paul Volcker (Oct 9, 1979)