Discussion of : Alternative Monetary-Policy Instruments and Limited Credibility: An exploration

Discussion by: Jair N. Ojeda-Joya* (Banco de la República, Colombia)

XXVI Meeting of the Central Bank Researchers Network, CEMLA

November 10th 2021

* The findings, recommendations, interpretations, and conclusions expressed in this paper do not necessarily reflect the official view of Banco de la Republica.

Paper Summary

- Use of DSGE model for small and open economy to study the effect of **external interest-rate shocks** under alternative degrees of credibility and under three monetary policy strategies: Interest rate rule, constant money growth and exchange-rate peg.
- Under rational expectations, **constant money growth** seems to prevent contractionary effects and leads to better welfare results.
- Under limited credibility on monetary policy, **interest rate rule** seems to perform better in terms of welfare and volatilities.
- **Robust model** (endogenous external risk, banks, external habits and imperfect access to credit): None of the base results are refuted

Comments

- Interest-rate rule is the only **countercyclical monetary policy**. Do the positive results for constant money growth hold under a sequence of positive and negative external interest-rate shocks?
- It would be interesting to study **alternative shocks** (TFP).
- Do these results hold for **alternative calibrations** of the model? (advanced economy).
- Alternative robustness check: include government with **active fiscal policy reactions** and non-Ricardian households.
- This paper has a very interesting and **complete analysis**!