

**Discussion of “A Horse Race of Monetary Policy
Regimes: An Experimental Investigation”
by Olena Kostyshyna, Luba Petersen and
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The views in this presentation are mine and do not necessarily reflect those of the Bank of Canada.

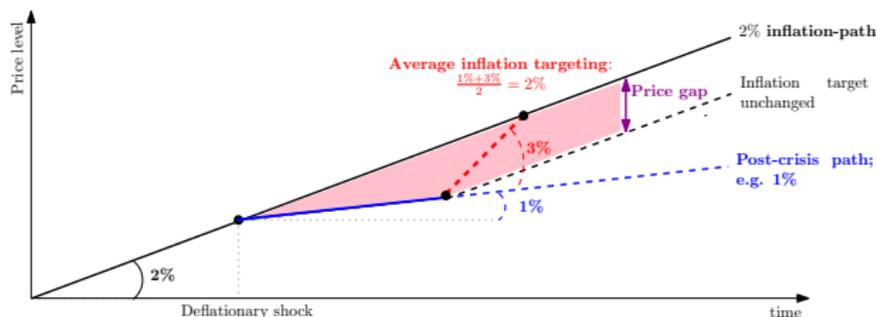
Outline of the discussion

- 1 About the KPY paper
- 2 Motivations and Relevance of the research agenda
- 3 Questions and Remarks

What the KPY paper does

The paper in a nutshell

- A NK **lab experiment** to compare the price stabilization properties of alternative CB's targets.
- **Make-up strategies** to compensate for persistently low inflation:



- **Main take-away:** the best-performing make-up strategies under RE (NGDPT and PLT) deliver the highest losses in the lab, while 'traditional' IT or DM rules are robust to human-generated expectations.
- Maybe some hope to engineer AIT to deliver reasonable loss levels.

Motivations and Relevance of the research agenda

- The relative merits of make-up strategies in **models** hinge entirely on the **assumed** expectation process.
- Macro field experiments difficult and natural-occurring data noisy:
 - Survey forecasts are **policy-dependent**.
- A forecasting **lab experiment** is an ideal playground to compare the policies with an **agnostic** stand on expectation formation and:
 - Control on **fundamentals**: monetary policy rule;
 - Control on **information**: qualitative information about the CB policy.



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 - Control on **fundamentals**: monetary policy rule;
 - Control on **information**: qualitative information about the CB policy.
- A '**wind tunnel**' for policies : **theories that have no explanatory power in the stylized lab environment unlikely to apply to the much more complex real economies.**



Questions

- Q1 The *reaction coefficients* differ across treatments, in particular between IT and AIT, and are quite high wrt empirical estimates:
→ Cross-regime comparisons not straightforward and feasibility in the real world?
- Q2 In terms in price gap after the 50 periods, how does each regime perform?
→ Which ones closes the gap after the deflationary shock?
- Q3 The estimated rules do not incorporate many lags, contrary to the MSV solution under AIT for instance, and do not include other endogenous variables such as the price gap or the nominal GDP. The target under AIT may only be weakly E-stable [Honkapohja and McClung, 2021].
→ Would it make the description of the behaviors in the lab richer?

Remarks

- R1** Simulations with adaptive agents still imply that the non-adaptive agents have *model-consistent expectations*. In the experiment, this is unlikely, this is why your results differ from Amano et al. [2020].
→ Limits of models incorporating boundedly rational expectations.
- R2** The poor performances of PLT may be due to the effects of non-flexible prices [Salle, 2021] and/or the size of the shock.
- R3** State-dependent targets fail to drive expectations up because people need to **'see it to believe it'** [Arifovic and Petersen, 2017].
→ Is it that they don't get it or don't buy it?

Thanks a lot again for your attention
and the invitation!

References I

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