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Macro Roundup Artcile

Headline: Monetary Policy Across Inflation Regimes

Article Link: https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1083.pdf?sc_lang=en

Author(s)	Valeria Gargiulo, Christian Matthes, and Katerina Petrova
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Tweet: .@cmatthes_econ reviews data from 1970-2007 and finds when inflation is running < 5.5% per year, monetary policy has a short-lived impact on prices but no impact on labor markets, “consistent with the recent “soft landing” of the U.S. economy.”

Summary: We find that the effects of monetary policy vary substantially with the underlying level of inflation in the economy. For most of our post-WWII sample, inflation has been less than 5.5% in the U.S., which our model identifies as a period during which monetary policy has no meaningful effects on labor markets. Even though our sample ends in 2007 due to the availability of the instrument series used to identify the effects of monetary policy, our results are consistent with the recent “soft landing” of the U.S. economy. On the other hand, when inflation is between 5.5 and 11%, the effects of monetary policy are larger and longer-lasting, since variables are much more persistent in this regime, and the effects of monetary policy on unemployment are sizable and significant. Related: In Search of Safe Havens: The Trust Deficit and Risk-free Investments! and The Fed and the Secular Decline in Interest Rates and Fiscal Influences on Inflation in OECD Countries, 2020-2022

Primary Topic: Inflation

Topics: Academic paper, GDP, Inflation, Monetary Policy

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