Discussion of

Gradualism in Monetary Policy: A Time-Consistency Problem?

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Summary/Intuition

General insight: multiplicity in communication styles

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$\hookrightarrow$ Same information transmission

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Ex post tradeoff in objective + discretion

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$\hookrightarrow$ Central Bank stuck in undesirable equilibrium

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- In data?

Theory

Disconnect in Theory?

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$\hookrightarrow$ always incentive to raise ϕ.

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- Conjecture 1: offsetting effects lead to finite equilibrium alpha.
- Conjecture 2: relation to commitment value is ambiguous

Data

Disconnect in the Data?

Table 5. Response of Asset Prices to Target and Path Factors

	One Factor			Two Factors			
	Constant (std. err.)	*Target Factor (std. err.)*	R^2	*Constant (std. err.)*	*Target Factor (std. err.)*	*Path Factor (std. err.)*	R^2
MP Surprise	–0.021*** (0.003)	1.000*** (0.047)	.91	–0.021*** (0.003)	1.000*** (0.048)	0.001 (0.026)	.91
One-Year-Ahead Eurodollar Future	–0.018*** (0.006)	0.555*** (0.076)	.36	–0.017*** (0.001)	0.551*** (0.017)	0.551*** (0.014)	.98
S&P 500	–0.008 (0.041)	–4.283*** (1.083)	.37	–0.008 (0.040)	–4.283*** (1.144)	–0.966 (0.594)	.40
Two-Year Note	–0.011** (0.005)	0.485*** (0.080)	.41	–0.011*** (0.002)	0.482*** (0.032)	0.411*** (0.023)	.94
Five-Year Note	–0.006 (0.005)	0.279*** (0.078)	.19	–0.006** (0.002)	0.276*** (0.044)	0.369*** (0.035)	.80
Ten-Year Note	–0.004 (0.004)	0.130** (0.059)	.08	–0.004* (0.002)	0.128*** (0.039)	0.283*** (0.025)	.74
Five-Year Forward Rate Five Years Ahead	0.001 (0.003)	–0.098** (0.049)	.06	0.001 (0.003)	–0.099** (0.047)	0.157*** (0.028)	.34

Note: Sample is all monetary policy announcements from July 1991–December 2004 (January 1990–December 2004 for S&P 500). Target factor and path factor are defined in the main text. Heteroskedasticity-consistent standard errors reported in parentheses. *, **, and *** denote significance at 10 percent, 5 percent, and 1 percent, respectively. See text for details.

Source: Gürkaynak, Sack, Swanson (IJCB, 2005)

Disconnect in the Data?

Table.. The Effect of Conventional Target and Path Surprises on the S&P500 Index.
Intraday Regressions, Scheduled FOMC Meetings, 1994–2008

VARIABLES	(1) TARGET	(2) TARGET &PATH (1-year)	(3) TARGET &PATH WFI (1-year)	(4) TARGET &PATH WFI DAILY (1-year)	(5) TARGET &PATH (2-years)	(6) TARGET &PATH WFI (2-years)	(7) TARGET &PATH WFI DAILY (2-years)
Target	-2.71***	-2.39**	-2.62**	-1.18	-2.63**	-2.71**	-1.04
	(-2.71)	(-2.22)	(-2.15)	(-0.54)	(-2.50)	(-2.34)	(-0.49)
WFI			-0.06	0.05		-0.06	0.04
			(-0.49)	(0.24)		(-0.52)	(0.23)
Target*WFI			0.89	6.67		0.59	6.11
			(0.23)	(1.05)		(0.16)	(1.01)
Path		-1.08	-0.15	0.90	-0.47	0.38	0.80
		(-1.27)	(-0.15)	(0.51)	(-0.62)	(0.49)	(0.45)
Path*WFI			-3.25**	-6.47***		-3.46**	-6.36***
			(-2.01)	(-3.06)		(-2.34)	(-3.01)
Constant	-0.04	-0.05	-0.02	0.23	-0.04	-0.02	0.23
	(-0.78)	(-0.85)	(-0.28)	(1.60)	(-0.83)	(-0.24)	(1.60)
Observations	109	109	109	109	109	109	109
R-squared	0.07	0.09	0.13	0.06	0.07	0.12	0.06

Notes: Heteroskedasticity-robust *t*-statistics in parentheses. *** p<0.01, ** p<0.05, * p<0.1. All regressions except (8) use intraday data, whereas regression (8) uses daily returns and intraday surprises. WFI is the wait-for-it period immediately before a reversal. Target refers to the target rate surprise captured by federal funds futures, and Path refers to the path surprise captured by the four-quarter-ahead euro-dollar futures. Further details are in the text. (1-year) and (2-years) in the column titles refer to path surprises generated using one-year-ahead and two-year-ahead euro-dollar futures.

Source: Ozdagli 2015 "The Final Countdown: Effects of Monetary Policy during Wait-for-it and Reversal Periods"