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Finance and Economics Discussion Series: Welfare-Maximizing Monetary Policy Under Parameter Uncertainty

By Rochelle Edge

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.This paper examines welfare-maximizing monetary policy in an estimated micro-founded general equilibrium model of the U.S. economy where the policymaker faces uncertainty about model parameters. Uncertainty about parameters describing preferences and technology implies not only uncertainty about the dynamics of the economy. It also implies uncertainty about the model's utility-based welfare criterion and about the economy's natural rate measures of interest and output. We analyze the characteristics and performance of alternative monetary policy rules given the estimated uncertainty regarding parameter estimates. We find that the natural rates of interest and output are imprecisely estimated. We then show that, relative to the case of known parameters, optimal policy under parameter uncertainty responds less to natural-rate terms and more to other variables, such as price and wage inflation and measures of tightness or slack that do not depend on natural rates.



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