

# Materials 25 - Preparing macro lunch

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## Overview

$$\begin{aligned}
 A_a &= \begin{pmatrix} -\frac{(\alpha-1)\beta(\delta\sigma+1)}{\delta\sigma+\kappa\psi\sigma+1} & \frac{\alpha\beta\kappa(\delta\sigma+1)}{\delta\sigma+\kappa\psi\sigma+1} & 0 \\ \frac{(\alpha-1)\beta\sigma\psi}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\alpha\beta\kappa\sigma\psi}{\delta\sigma+\kappa\psi\sigma+1} & 0 \\ -\frac{(\alpha-1)\beta\psi}{\delta\sigma+\kappa\psi\sigma+1} & \frac{\alpha\beta\kappa\psi}{\delta\sigma+\kappa\psi\sigma+1} & 0 \end{pmatrix} \\
 A_b &= \begin{pmatrix} \frac{\kappa\sigma(1-\beta\psi)}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\kappa(\delta\sigma\beta+\beta-1)}{\delta\sigma+\kappa\psi\sigma+1} & 0 \\ \frac{\sigma-\beta\sigma\psi}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\delta\sigma\beta+\beta-1}{\delta\sigma+\kappa\psi\sigma+1} & 0 \\ -\frac{\sigma(\beta\psi-1)(\delta+\kappa\psi)}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{(\delta\sigma\beta+\beta-1)(\delta+\kappa\psi)}{\delta\sigma+\kappa\psi\sigma+1} & 0 \end{pmatrix} \\
 A_s &= \begin{pmatrix} \frac{(\delta\sigma+1)\text{ia}(3,1)+\kappa\sigma(\text{ib}(1,1)-\text{ib}(2,1))}{\delta\sigma+\kappa\psi\sigma+1} & \frac{(\delta\sigma+1)\text{ia}(3,2)+\kappa\sigma(\text{ib}(1,2)-\text{ib}(2,2))}{\delta\sigma+\kappa\psi\sigma+1} & \frac{(\delta\sigma+1)\text{ia}(3,3)-\kappa\sigma(\text{ib}(1,3)-\text{ib}(2,3))}{\delta\sigma+\kappa\psi\sigma+1} \\ -\frac{\sigma(\psi\text{ia}(3,1)-\text{ib}(1,1)+\text{ib}(2,1))}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\sigma(\psi\text{ia}(3,2)-\text{ib}(1,2)+\text{ib}(2,2))}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\sigma(\psi\text{ia}(3,3)-\text{ib}(1,3)+\text{ib}(2,3))}{\delta\sigma+\kappa\psi\sigma+1} \\ \frac{\psi\text{ia}(3,1)+\delta\sigma\text{ib}(1,1)+\kappa\sigma\psi\text{ib}(1,1)-\sigma(\delta+\kappa\psi)\text{ib}(2,1)}{\delta\sigma+\kappa\psi\sigma+1} & \frac{\psi\text{ia}(3,2)+\delta\sigma(\text{ib}(1,2)-\text{ib}(2,2)+1)+\kappa\sigma\psi(\text{ib}(1,2)-\text{ib}(2,2)+1)+1}{\delta\sigma+\kappa\psi\sigma+1} & \frac{\psi\text{ia}(3,3)+\delta\sigma\text{ib}(1,3)+\delta\sigma\text{ib}(2,3)+1+\kappa\sigma\psi(\text{ib}(1,3)-\text{ib}(2,3)+1)+1}{\delta\sigma+\kappa\psi\sigma+1} \end{pmatrix}
 \end{aligned}$$

If shocks are iid, ia and ib are identity matrices, and so  $A_s$  becomes:

$$A_s = \begin{pmatrix} \frac{\kappa\sigma}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\kappa\sigma}{\delta\sigma+\kappa\psi\sigma+1} & \frac{\delta\sigma+1}{\delta\sigma+\kappa\psi\sigma+1} \\ \frac{\sigma}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\sigma}{\delta\sigma+\kappa\psi\sigma+1} & -\frac{\sigma\psi}{\delta\sigma+\kappa\psi\sigma+1} \\ \frac{\kappa\psi\sigma+\sigma\delta}{\delta\sigma+\kappa\psi\sigma+1} & \frac{1}{\delta\sigma+\kappa\psi\sigma+1} & \frac{\psi}{\delta\sigma+\kappa\psi\sigma+1} \end{pmatrix}$$

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# 1 A value function iteration attempt at finding the optimal interest-rate-sequence

The planner chooses  $\{\pi_t, x_t, i_t, f_{a,t}, f_{b,t}, \bar{\pi}_t, k_t^{-1}\}_{t=t_0}^{\infty}$  to minimize

$$V(\mathbf{x}_t, t) = \max - \left\{ (\pi_t^2 + \lambda_x x_t^2) + \beta \mathbb{E}_t V(\mathbf{x}_{t+1}, t+1) \right\} \quad (1)$$

$$\text{s.t. to model equations} \quad (2)$$

Model equations are:

$$\pi_t = \kappa x_t + (1 - \alpha)\beta f_a(t) + \kappa\alpha\beta b_2(I_3 - \alpha\beta h_x)^{-1} s_t + e_3(I_3 - \alpha\beta h_x)^{-1} s_t \quad (3)$$

$$x_t = -\sigma i_t + \sigma f_b(t) + (1 - \beta)b_2(I_3 - \beta h_x)^{-1} s_t - \sigma\beta b_3(I_3 - \beta h_x)^{-1} s_t + \sigma e_1(I_3 - \beta h_x)^{-1} s_t \quad (4)$$

$$f_a(t) = \frac{1}{1 - \alpha\beta} \bar{\pi}_{t-1} + b_1(I_3 - \alpha\beta h_x)^{-1} s_t \quad (5)$$

$$f_b(t) = \frac{1}{1 - \beta} \bar{\pi}_{t-1} + b_1(I_3 - \beta h_x)^{-1} s_t \quad (6)$$

$$\bar{\pi}_t = \bar{\pi}_{t-1} + k_t^{-1} (\pi_t - (\bar{\pi}_{t-1} + b_1 s_{t-1})) \quad (7)$$

$$k_t^{-1} = k_{t-1}^{-1} + \mathbf{g}(\pi_t - \bar{\pi}_{t-1} - b_1 s_{t-1}) \quad (8)$$

Let's substitute out  $x_t, f_{a,t}$  and  $f_{b,t}$ , so that the state vector is simply  $\mathbf{x}_t = (\bar{\pi}_{t-1}, k_t^{-1}, r_t^n, u_t)'$ .

The problem becomes to choose  $\{\pi_t, i_t, \bar{\pi}_t, k_t^{-1}\}_{t=t_0}^{\infty}$  to minimize

$$\begin{aligned}
V(\mathbf{x}_t, t) = \max & - \left\{ \pi_t^2 + \lambda_x \sigma^2 i_t^2 + \lambda_x \frac{\sigma^2}{(1-\beta)^2} \bar{\pi}_{t-1}^2 - \lambda_x \frac{\sigma^2}{1-\beta} i_t \bar{\pi}_{t-1} \right. \\
& - \lambda_x \sigma \left( \sigma b_1 (I_3 - \beta h_x)^{-1} + (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \sigma e_1 (I_3 - \beta h_x)^{-1} \right) i_t s_t \\
& + \lambda_x \frac{\sigma}{1-\beta} \left( \sigma b_1 (I_3 - \beta h_x)^{-1} + (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \sigma e_1 (I_3 - \beta h_x)^{-1} \right) \bar{\pi}_{t-1} s_t \\
& + \lambda_x \left( \sigma b_1 (I_3 - \beta h_x)^{-1} + (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \sigma e_1 (I_3 - \beta h_x)^{-1} \right)^2 s_t \\
& \left. + \beta \mathbb{E}_t V(\mathbf{x}_{t+1}, t+1) \right\}
\end{aligned} \tag{9}$$

s.t. to model equations

$$\begin{aligned}
\pi_t = & -\kappa \sigma i_t + \left( \kappa \sigma \frac{1}{1-\beta} + \frac{(1-\alpha)\beta}{1-\alpha\beta} \right) \bar{\pi}_{t-1} \\
& + \left( \kappa \sigma b_1 (I_3 - \beta h_x)^{-1} + \kappa (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \kappa \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \kappa \sigma e_1 (I_3 - \beta h_x)^{-1} \right. \\
& \left. + (1-\alpha) \beta b_1 (I_3 - \alpha \beta h_x)^{-1} + \kappa \alpha \beta b_2 (I_3 - \alpha \beta h_x)^{-1} + e_3 (I_3 - \alpha \beta h_x)^{-1} \right) s_t
\end{aligned} \tag{10}$$

$$\bar{\pi}_t = \bar{\pi}_{t-1} + k_t^{-1} (\pi_t - (\bar{\pi}_{t-1} + b_1 s_{t-1})) \tag{11}$$

$$k_t^{-1} = k_{t-1}^{-1} + \mathbf{g}(\pi_t - \bar{\pi}_{t-1} - b_1 s_{t-1}) \tag{12}$$

Let's simplify further. Let

$$\Omega_1 \equiv -\lambda_x \sigma \left( \sigma b_1 (I_3 - \beta h_x)^{-1} + (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \sigma e_1 (I_3 - \beta h_x)^{-1} \right) \tag{13}$$

$$\Omega_2 \equiv \lambda_x \frac{\sigma}{1-\beta} \left( \sigma b_1 (I_3 - \beta h_x)^{-1} + (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \sigma e_1 (I_3 - \beta h_x)^{-1} \right) \tag{14}$$

$$\Omega_3 \equiv \lambda_x \left( \sigma b_1 (I_3 - \beta h_x)^{-1} + (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \sigma e_1 (I_3 - \beta h_x)^{-1} \right)^2 \tag{15}$$

$$\Omega_4 \equiv \left( \kappa \sigma \frac{1}{1-\beta} + \frac{(1-\alpha)\beta}{1-\alpha\beta} \right) \tag{16}$$

$$\begin{aligned}
\Omega_5 \equiv & \left( \kappa \sigma b_1 (I_3 - \beta h_x)^{-1} + \kappa (1-\beta) b_2 (I_3 - \beta h_x)^{-1} - \kappa \sigma \beta b_3 (I_3 - \beta h_x)^{-1} + \kappa \sigma e_1 (I_3 - \beta h_x)^{-1} \right. \\
& \left. + (1-\alpha) \beta b_1 (I_3 - \alpha \beta h_x)^{-1} + \kappa \alpha \beta b_2 (I_3 - \alpha \beta h_x)^{-1} + e_3 (I_3 - \alpha \beta h_x)^{-1} \right)
\end{aligned} \tag{17}$$

Then I can rewrite the problem as

$$V(\mathbf{x}_t, t) = \max - \left\{ \pi_t^2 + \lambda_x \sigma^2 i_t^2 + \lambda_x \frac{\sigma^2}{(1-\beta)^2} \bar{\pi}_{t-1}^2 - \lambda_x \frac{\sigma^2}{1-\beta} i_t \bar{\pi}_{t-1} + \Omega_1 i_t s_t + \Omega_2 \bar{\pi}_{t-1} s_t + \Omega_3 s_t + \beta \mathbb{E}_t V(\mathbf{x}_{t+1}, t+1) \right\} \quad (18)$$

s.t.

$$\pi_t = -\kappa \sigma i_t + \Omega_4 \bar{\pi}_{t-1} + \Omega_5 s_t \quad (19)$$

$$\bar{\pi}_t = \bar{\pi}_{t-1} + k_t^{-1} (\pi_t - (\bar{\pi}_{t-1} + b_1 s_{t-1})) \quad (20)$$

$$k_t^{-1} = k_{t-1}^{-1} + \mathbf{g}(\pi_t - \bar{\pi}_{t-1} - b_1 s_{t-1}) \quad (21)$$

to sub out  $\pi_t$  and get

$$V(\mathbf{x}_t, t) = \max - \left\{ (\lambda_x \sigma^2 + (\kappa \sigma)^2) i_t^2 + (\lambda_x \frac{\sigma^2}{(1-\beta)^2} + \Omega_4^2) \bar{\pi}_{t-1}^2 + (-\lambda_x \frac{\sigma^2}{1-\beta} - \kappa \sigma \Omega_4) i_t \bar{\pi}_{t-1} + (\Omega_1 - \kappa \sigma \Omega_5) i_t s_t + (\Omega_2 + \Omega_4 \Omega_5) \bar{\pi}_{t-1} s_t + (\Omega_3 + \Omega_5^2) s_t + \beta \mathbb{E}_t V(\mathbf{x}_{t+1}, t+1) \right\} \quad (22)$$

s.t.

$$\bar{\pi}_t = \bar{\pi}_{t-1} + k_t^{-1} (-\kappa \sigma i_t + (\Omega_4 - 1) \bar{\pi}_{t-1} + \Omega_5 s_t - b_1 s_{t-1}) \quad (23)$$

$$k_t^{-1} = k_{t-1}^{-1} + \mathbf{g}(-\kappa \sigma i_t + (\Omega_4 - 1) \bar{\pi}_{t-1} + \Omega_5 s_t - b_1 s_{t-1}) \quad (24)$$

Let's introduce more  $\Omega$ s. Let

$$\Omega_6 \equiv (\lambda_x \sigma^2 + (\kappa \sigma)^2) \quad (25)$$

$$\Omega_7 \equiv (\lambda_x \frac{\sigma^2}{(1-\beta)^2} + \Omega_4^2) \quad (26)$$

$$\Omega_8 \equiv (-\lambda_x \frac{\sigma^2}{1-\beta} - \kappa \sigma \Omega_4) \quad (27)$$

$$\Omega_9 \equiv (\Omega_1 - \kappa \sigma \Omega_5) \quad (28)$$

$$\Omega_{10} \equiv (\Omega_2 + \Omega_4 \Omega_5) \quad (29)$$

$$\Omega_{11} \equiv (\Omega_3 + \Omega_5^2) \quad (30)$$

$$\Omega_{12} \equiv \Omega_4 - 1 \quad (31)$$

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Then the problem takes its final form:

$$V(\mathbf{x}_t, t) = \max_{i_t} - \left\{ \Omega_6 i_t^2 + \Omega_7 \bar{\pi}_{t-1}^2 + \Omega_8 i_t \bar{\pi}_{t-1} + \Omega_9 i_t s_t + \Omega_{10} \bar{\pi}_{t-1} s_t + \Omega_{11} s_t + \beta \mathbb{E}_t V(\mathbf{x}_{t+1}, t+1) \right\} \quad (32)$$

s.t.

$$\bar{\pi}_t = \bar{\pi}_{t-1} + k_t^{-1} (-\kappa \sigma i_t + \Omega_{12} \bar{\pi}_{t-1} + \Omega_5 s_t - b_1 s_{t-1}) \quad (33)$$

$$k_t^{-1} = k_{t-1}^{-1} + \mathbf{g}(-\kappa \sigma i_t + \Omega_{12} \bar{\pi}_{t-1} + \Omega_5 s_t - b_1 s_{t-1}) \quad (34)$$

## A Model summary

$$x_t = -\sigma i_t + \hat{\mathbb{E}}_t \sum_{T=t}^{\infty} \beta^{T-t} ((1-\beta)x_{T+1} - \sigma(\beta i_{T+1} - \pi_{T+1}) + \sigma r_T^n) \quad (\text{A.1})$$

$$\pi_t = \kappa x_t + \hat{\mathbb{E}}_t \sum_{T=t}^{\infty} (\alpha\beta)^{T-t} (\kappa\alpha\beta x_{T+1} + (1-\alpha)\beta\pi_{T+1} + u_T) \quad (\text{A.2})$$

$$i_t = \psi_\pi \pi_t + \psi_x x_t + \bar{i}_t \quad (\text{if imposed}) \quad (\text{A.3})$$

$$\text{PLM:} \quad \hat{\mathbb{E}}_t z_{t+h} = a_{t-1} + b h_x^{h-1} s_t \quad \forall h \geq 1 \quad b = g_x h_x \quad (\text{A.4})$$

$$\text{Updating:} \quad a_t = a_{t-1} + k_t^{-1} (z_t - (a_{t-1} + b s_{t-1})) \quad (\text{A.5})$$

$$\text{Anchoring function:} \quad k_t = k_{t-1} + \mathbf{g}(f e_{t-1}^2) \quad (\text{A.6})$$

$$\text{Forecast error:} \quad f e_{t-1} = z_t - (a_{t-1} + b s_{t-1}) \quad (\text{A.7})$$

$$\text{LH expectations:} \quad f_a(t) = \frac{1}{1-\alpha\beta} a_{t-1} + b(\mathbb{I}_{nx} - \alpha\beta h)^{-1} s_t \quad f_b(t) = \frac{1}{1-\beta} a_{t-1} + b(\mathbb{I}_{nx} - \beta h)^{-1} s_t \quad (\text{A.8})$$

This notation captures vector learning ( $z$  learned) for intercept only. For scalar learning,  $a_t = (\bar{\pi}_t \ 0 \ 0)'$  and  $b_1$  designates the first row of  $b$ . The observables  $(\pi, x)$  are determined as:

$$x_t = -\sigma i_t + \begin{bmatrix} \sigma & 1-\beta & -\sigma\beta \end{bmatrix} f_b + \sigma \begin{bmatrix} 1 & 0 & 0 \end{bmatrix} (\mathbb{I}_{nx} - \beta h_x)^{-1} s_t \quad (\text{A.9})$$

$$\pi_t = \kappa x_t + \begin{bmatrix} (1-\alpha)\beta & \kappa\alpha\beta & 0 \end{bmatrix} f_a + \begin{bmatrix} 0 & 0 & 1 \end{bmatrix} (\mathbb{I}_{nx} - \alpha\beta h_x)^{-1} s_t \quad (\text{A.10})$$

## B Target criterion

The target criterion in the simplified model (scalar learning of inflation intercept only,  $k_t^{-1} = \mathbf{g}(f e_{t-1})$ ):

$$\pi_t = -\frac{\lambda_x}{\kappa} \left\{ x_t - \frac{(1-\alpha)\beta}{1-\alpha\beta} \left( k_t^{-1} + ((\pi_t - \bar{\pi}_{t-1} - b_1 s_{t-1})) \mathbf{g}_\pi(t) \right) \right. \\ \left. \left( \mathbb{E}_t \sum_{i=1}^{\infty} x_{t+i} \prod_{j=0}^{i-1} (1 - k_{t+1+j}^{-1} - (\pi_{t+1+j} - \bar{\pi}_{t+j} - b_1 s_{t+j}) \mathbf{g}_{\bar{\pi}}(t+j)) \right) \right\} \quad (\text{B.1})$$

where I'm using the notation that  $\prod_{j=0}^0 \equiv 1$ . For interpretation purposes, let me rewrite this as follows:

$$\pi_t = -\frac{\lambda_x}{\kappa} x_t + \frac{\lambda_x}{\kappa} \frac{(1-\alpha)\beta}{1-\alpha\beta} \left( k_t^{-1} + f e_{t|t-1}^{eve} \mathbf{g}_\pi(t) \right) \mathbb{E}_t \sum_{i=1}^{\infty} x_{t+i} \\ - \frac{\lambda_x}{\kappa} \frac{(1-\alpha)\beta}{1-\alpha\beta} \left( k_t^{-1} + f e_{t|t-1}^{eve} \mathbf{g}_\pi(t) \right) \left( \mathbb{E}_t \sum_{i=1}^{\infty} x_{t+i} \prod_{j=0}^{i-1} (k_{t+1+j}^{-1} + f e_{t+1+j|t+j}^{eve} \mathbf{g}_{\bar{\pi}}(t+j)) \right) \quad (\text{B.2})$$

Interpretation: **tradeoffs from discretion in RE** + **effect of current level and change of the gain on future tradeoffs** + **effect of future expected levels and changes of the gain on future tradeoffs**

## C A target criterion system for an anchoring function specified for gain changes

$$k_t = k_{t-1} + \mathbf{g}(fe_{t|t-1}) \quad (\text{C.1})$$

Turns out the  $k_{t-1}$  adds one  $\varphi_{6,t+1}$  too many which makes the target criterion unwieldy. The FOCs of the Ramsey problem are

$$2\pi_t + 2\frac{\lambda}{\kappa}x_t - k_t^{-1}\varphi_{5,t} - \mathbf{g}_\pi(t)\varphi_{6,t} = 0 \quad (\text{C.2})$$

$$cx_{t+1} + \varphi_{5,t} - (1 - k_t^{-1})\varphi_{5,t+1} + \mathbf{g}_{\bar{\pi}}(t)\varphi_{6,t+1} = 0 \quad (\text{C.3})$$

$$\varphi_{6,t} + \varphi_{6,t+1} = fe_t\varphi_{5,t} \quad (\text{C.4})$$

where the red multiplier is the new element vis-a-vis the case where the anchoring function is specified in levels ( $k_t^{-1} = \mathbf{g}(fe_{t-1})$ ), as in App. ??), and I'm using the shorthand notation

$$c = -\frac{2(1-\alpha)\beta}{1-\alpha\beta}\frac{\lambda}{\kappa} \quad (\text{C.5})$$

$$fe_t = \pi_t - \bar{\pi}_{t-1} - bs_{t-1} \quad (\text{C.6})$$

(?) says that in anchoring, the discretion tradeoff is complemented with tradeoffs coming from learning ( $\varphi_{5,t}$ ), which are more binding when expectations are unanchored ( $k_t^{-1}$  high). Moreover, the change in the anchoring of expectations imposes an additional constraint ( $\varphi_{6,t}$ ), which is more strongly binding if the gain responds strongly to inflation ( $\mathbf{g}_\pi(t)$ ). One can simplify this three-equation-system to:

$$\varphi_{6,t} = -cfe_tx_{t+1} + \left(1 + \frac{fe_t}{fe_{t+1}}(1 - k_{t+1}^{-1}) - fe_t\mathbf{g}_{\bar{\pi}}(t)\right)\varphi_{6,t+1} - \frac{fe_t}{fe_{t+1}}(1 - k_{t+1}^{-1})\varphi_{6,t+2} \quad (\text{C.7})$$

$$0 = 2\pi_t + 2\frac{\lambda}{\kappa}x_t - \left(\frac{k_t^{-1}}{fe_t} + \mathbf{g}_\pi(t)\right)\varphi_{6,t} + \frac{k_t^{-1}}{fe_t}\varphi_{6,t+1} \quad (\text{C.8})$$

Unfortunately, I haven't been able to solve (?) for  $\varphi_{6,t}$  and therefore I can't express the target criterion so nicely as before. The only thing I can say is to direct the targeting rule-following central bank to compute  $\varphi_{6,t}$  as the solution to (?), and then evaluate (?) as a target criterion. The solution to (?) is given by:

$$\varphi_{6,t} = -2\mathbb{E}_t \sum_{i=0}^{\infty} \left(\pi_{t+i} + \frac{\lambda_x}{\kappa}x_{t+i}\right) \prod_{j=0}^{i-1} \frac{\frac{k_{t+j}^{-1}}{fe_{t+j}}}{\frac{k_{t+j}^{-1}}{fe_{t+j}} + \mathbf{g}_\pi(t+j)} \quad (\text{C.9})$$

Interpretation: the anchoring constraint is not binding ( $\varphi_{6,t} = 0$ ) if the CB always hits the target ( $\pi_{t+i} + \frac{\lambda_x}{\kappa}x_{t+i} = 0 \quad \forall i$ ); or expectations are always anchored ( $k_{t+j}^{-1} = 0 \quad \forall j$ ).