Intuitions – approximately in order of slides

* Anchored expectations: long-run expectations stay where they are regardless of how actual inflation moves around. Important because long-run E determine how firms set prices, so if long-run E stable, prices are stable
* Dgain and cgain vs. endogenous gain: the first two are not true in data. Recall motivation slide: we see that LR-E respond in a time-varying way to inflation surprises. That’s why it is important to look at monpol in an endogenous gain setting. Carvalho et al 2019 showed that Great Inflation was a period of high gains, again an endog gain explains that, c or d don’t. (Jenny)
* Cgain looks like noisy info in the data (Coibion & Gorodnichenko 2015) (Jenny)
* Estimation> 2015 period: something might be going on with oil prices: World Bank blog: “ 2014-16 collapse in oil prices” was the biggest drop in oil prices in modern history (70% drop). It was mainly driven by efficiency gains in shale oil production. According to the World Bank, there was also low demand. Goro et al have shown that consumer expectations very sensitive to oil prices b/c gasoline is salient. (Jenny)
* TC: In RE, optimal thing to do is to move pi and x to absorb a cost-push shock. In adaptive learning, a new thing is Ex, you can push some of the shock to the future. (Jenny)
* Asymmetry is there in policy, but it doesn’t show up in the plot b/c I’m plotting interest rate against pibar, not against fe.
* Optimal policy is large, yes, but it’s large because such aggressiveness allows the CB to stabilize pibar, so it’s never necessary 🡪 show that model spends most of its time in the pibar close to zero region. (Jenny)
* IRFs with cgain against unanchored: emphasize that the only diff between the two is the gain, so that policy wants to avoid letting the gain be high (Jenny)