



Referee2's report -Round 0

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Implications for Determinacy with Average Inflation Targeting

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Paper: **Implications for Determinacy with Average Inflation Targeting**

The paper builds further upon the New Keynesian model proposed by Clarida, Galí & Gertler (1999) to address the issue of Average Inflation Targeting used by the Fed as a monetary policy framework.

Indeed, it is a well-written paper, which explains adequately – given the short extension limitations imposed – the respective macroeconomic theory and econometric specification implemented, to ultimately reach some really interesting intuitions regarding the factors which any monetary policy-maker should take into account if they were to avoid ‘indeterminacy’ in their ‘forward-looking’ decisions.

Personally, I felt that some more explanation was needed in the Results Section as to how exactly ‘determinacy’ and ‘indeterminacy’ are defined, however, the Figures offered on p. 7 visualize nicely all the insights discussed in the Results and Conclusion section.

All in all, the paper definitely seems to be correct in theory, econometric analysis and conclusions drawn; it will certainly be of much interest for both economists and monetary policy makers, and it is also well-written. Reading the respective Clarida, Galí & Gertler (1999 & 2000) papers on which it bases its analysis, one feels that this paper’s contribution lies on a better understanding and visualization of how ‘indeterminacy’ lurks in the ‘forward-looking’ decisions of monetary policy-makers like the Fed.

In sum, I think that the paper deserves being published by the journal.

Two points of minor importance: in the final paragraph of p. 5, I read: “Panel (A) demonstrates the importance of using current or past **values inflation** in the target window”. Should it rather be “Panel (A) demonstrates the importance of using current or past values **of** inflation in the target Window”?

And, in the final paragraph of the Results Section, on p. 6, I read: “Larger responses to the output gap **are necessary are also important** for determinacy”. Shouldn’t one of those “**are necessary**” and “**are also important**” be omitted?