Research Seminar "Quantitative Economics"

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Abstract

Informational Inertia and the Taylor Principle

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Abstract
We present determinacy bounds on monetary policy in three models of informational inertia - sticky information, imperfect common knowledge, and arbitrary finite inattentiveness. We show that they all share a common vertical long run Phillips curve and that these bounds are identical across these models. The resulting bounds are more conservative than in the standard Calvo sticky price New Keynesian model. Specifically, the Taylor principle is now necessary directly - no amount of output targeting can substitute for the monetary authority's concern for inflation. This conservative lens also gives sharper determinacy bounds in regime switching and fiscal theory setting.