Monetary policy in the Euro Area, when Phillips curves ... are curves

ChaMP, Austrian Central Bank
Discussion

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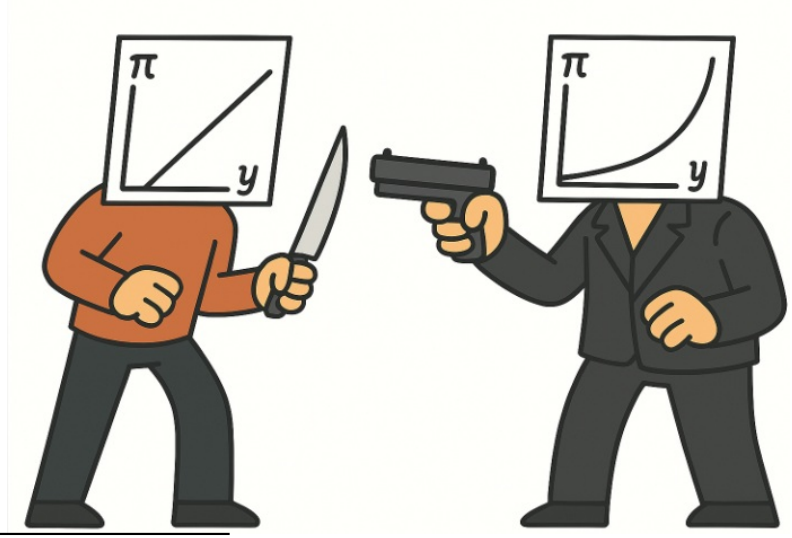
National Bank of Belgium



[1]The views expressed in this discussion are those of the author and do not necessarily reflect the views of the National Bank of Belgium, the Eurosystem, or any other institution with which the author is affiliated.

Main takeaway

1. **Main appreciation: Great paper!**
   - Careful work;
   - Speaks to open academic questions and the policy debate;
   - Exciting and lively research agenda.
2. **This discussion**
   - Motivation;
   - Main takeaways;
   - Machinery and three reflections:
     - Quid selection effect;
     - Quid indexation;
     - Do we need this machinery always and everywhere?

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Motivation in a nutshell

1. **Research agenda**:
   - Unpack forces that generated recent inflation dynamics;
   - Study implications for monetary policy.
2. **Pitch: standard NK models are not fit for the job**:
   - Time dependent ("Calvo") framework for price and wage setting process is ubiquitous;
   - Inflation surge was accompanied by more frequent price and wage adjustments.
3. **A knife to a gunfight — not innocuous:**
   - Quasi linear PC: Quid soft landing;
   - Misguided inference.
4. **Contribution of this paper:**
   - **Theoretically**: Enrich model with state dependent price/wage setting;
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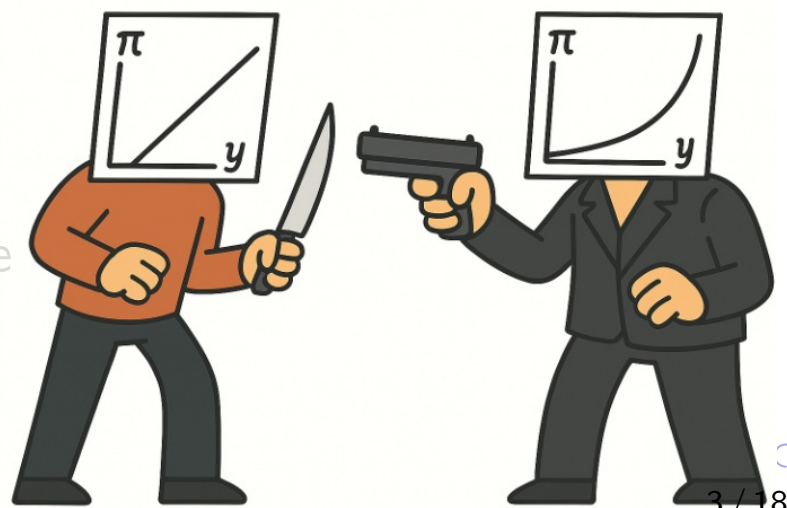

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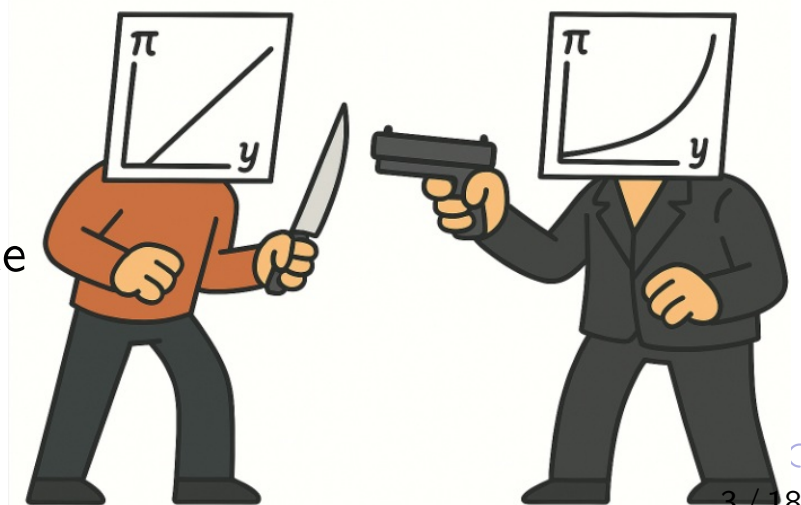

Takeaways for two audiences

Headline result

1. **... for the monetary policy-maker**
   - Time varying wage and price frequencies increase the slope of the wage & price PC;
   - Stabilization trade-off: The cost of disinflation improves substantially;
   - Earlier, more decisive policy action would have curbed inflation faster with a comparatively lower output cost than what a linear model would predict.
2. **... for model builders**
   - **Volatile times**:
     - Easy, elegant and portable way to introduce state dependent pricing/wage setting in DSGE models.
   - **Calm times**:
     - Heavy machinery is perhaps not (always) needed?

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The model: some visuals

Household

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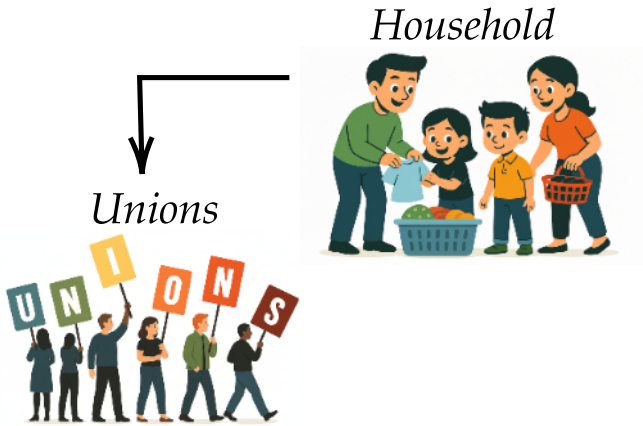

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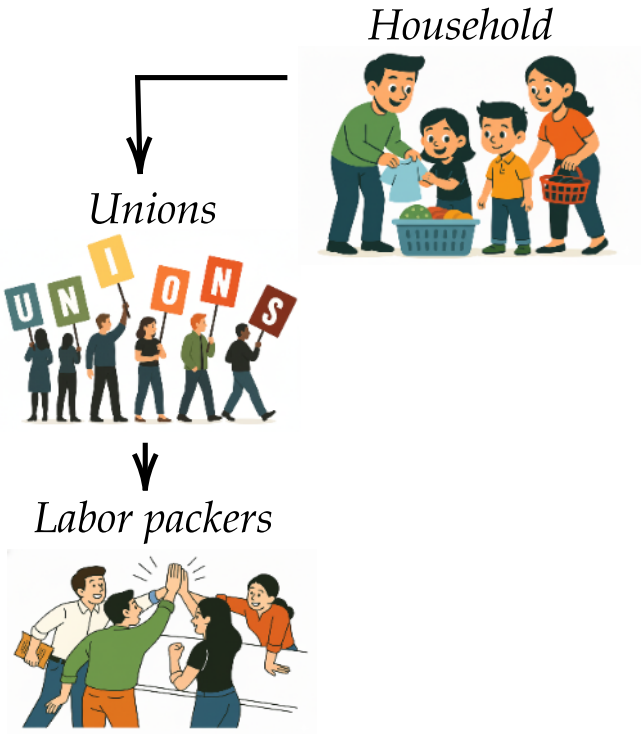

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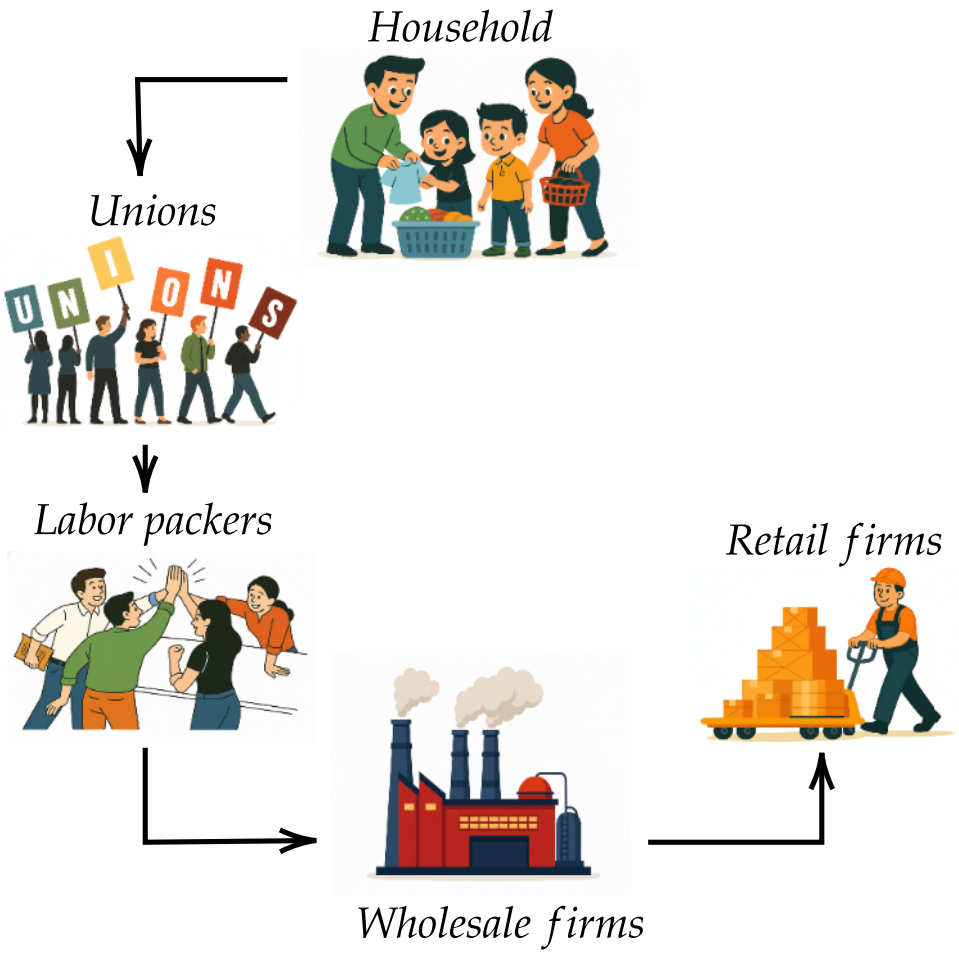

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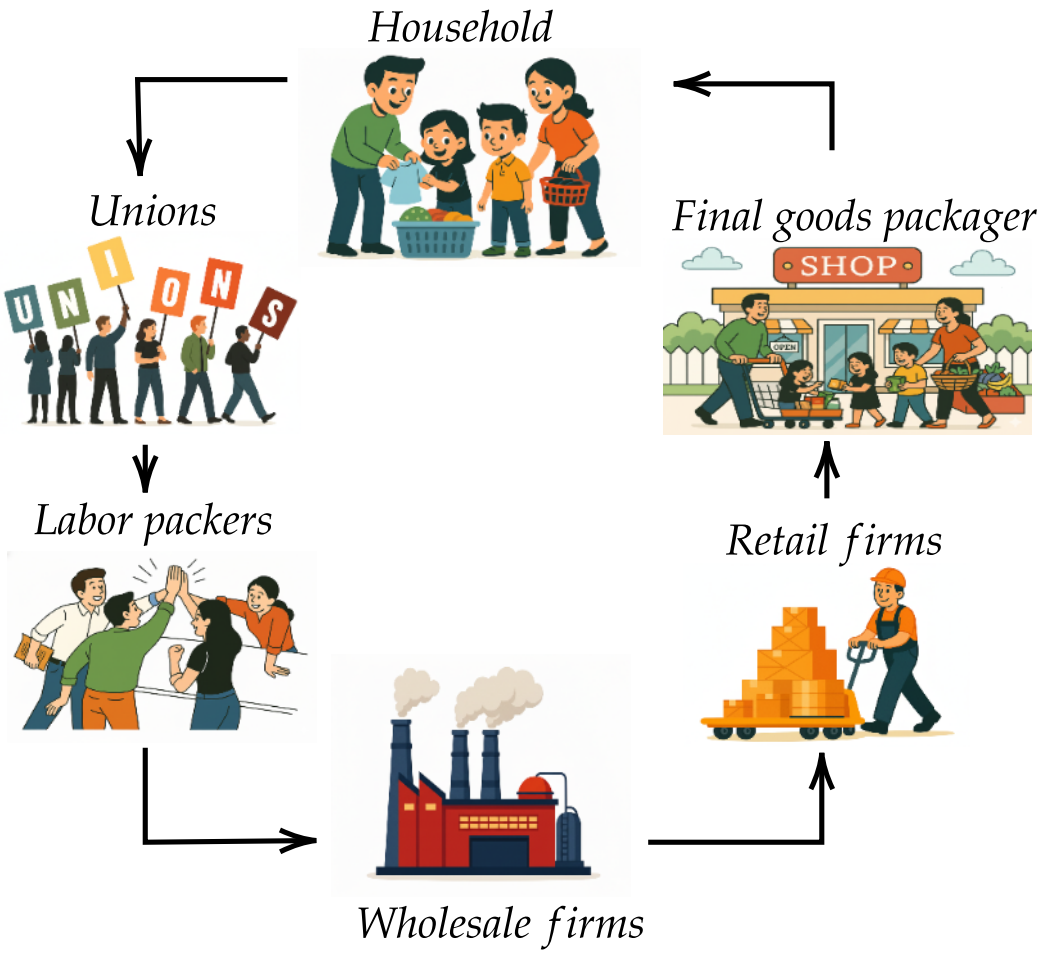

The model: some visuals

Monetary Policy

Household

Unions

Final goods packager

Labor packers

Retail firms

Wholesale firms

Comment 1: Quid selection effect?

- **Usual ingredients of state dependent pricing:**
  1. **Menu costs**: price updates are not free;
  2. **Price gap**: ideal price $\neq$ listed price.
- **Chain of events:**
  1. Large shocks $\uparrow$;
  2. Price gaps widen $\uparrow$;
  3. Extensive margin $\uparrow$;
  4. π_t $\uparrow$.
- **Trade-off:**
  1. Pro: Conceptually, a very appealing modeling device;
  2. Con: Computational nightmare.
- **This paper: "Best of both worlds".**
  1. Resetting agency to decouple the extensive margin/intensive margin decision
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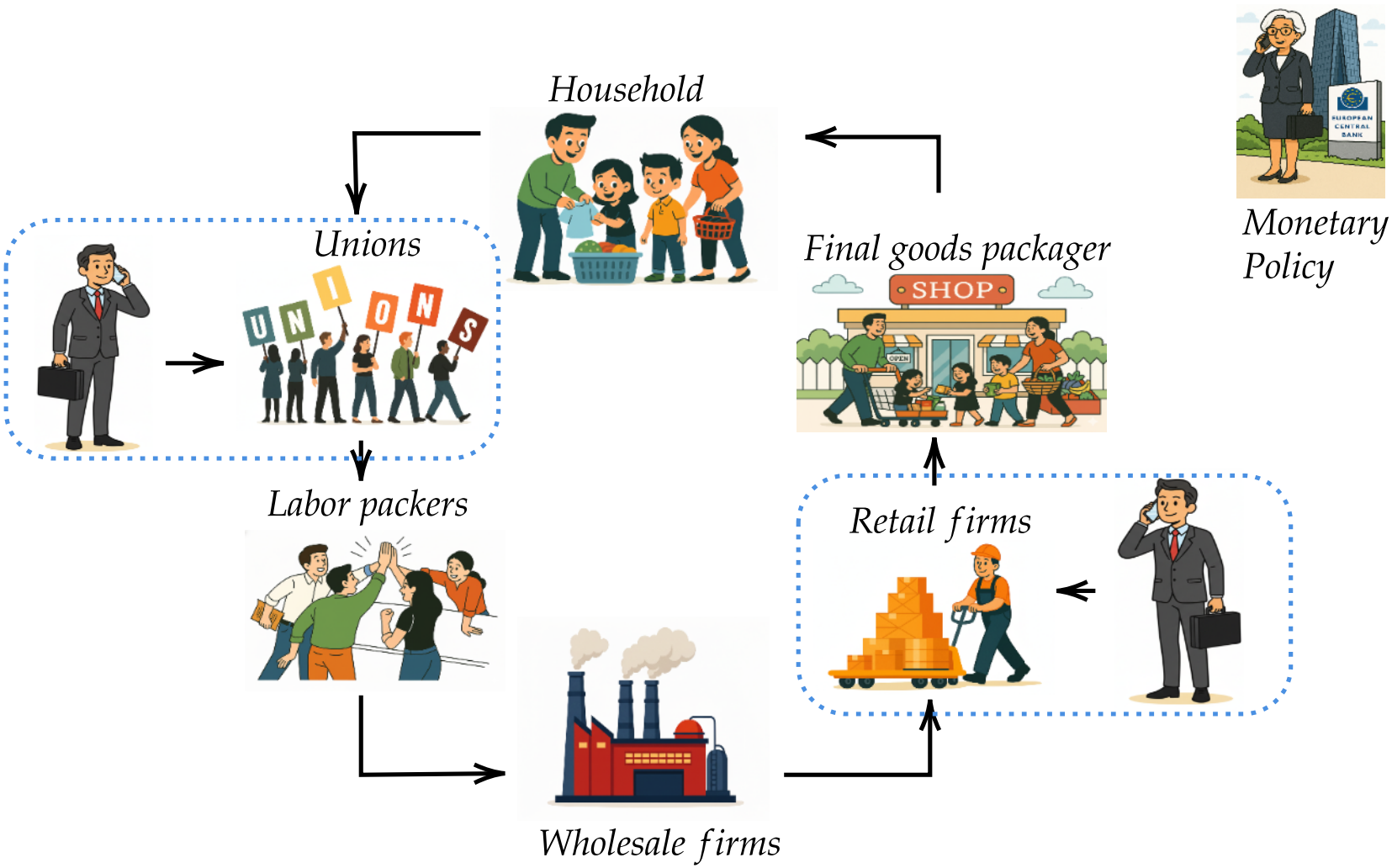

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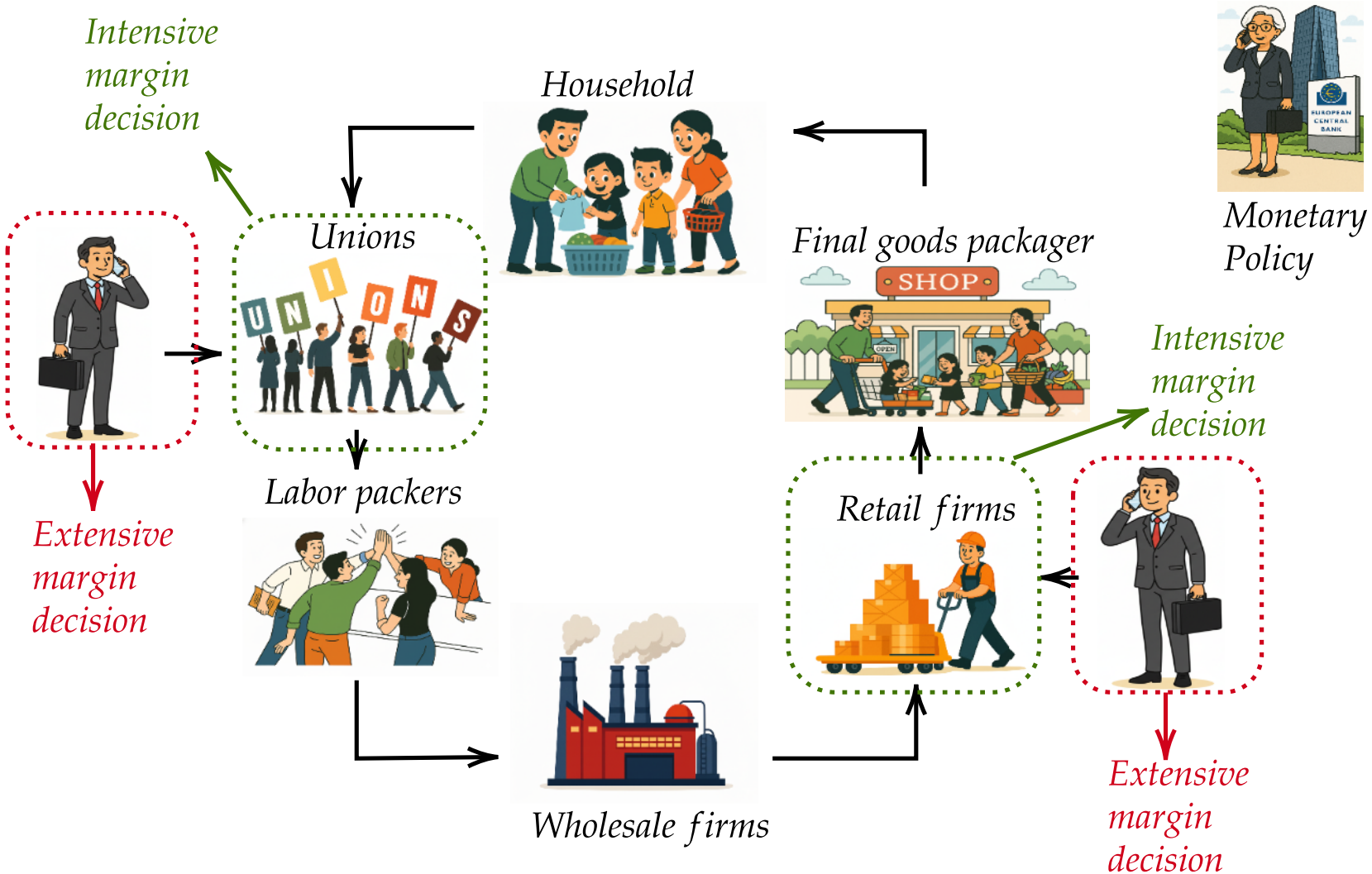

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   - Rules out the traditional "selection effect";
   - The retailers/labor unions that update (extensive margin) are the ones that will update the most (intensive margin);
2. **To be clear:**
   - This is a very sensible sacrifice in order to make progress;
3. **... But this might undersell the paper:**
   - Are we missing some of the "curvyness" of the PC? Possible to bound?
   - Quid cost of disinflation?
   - Quid counterfactuals?
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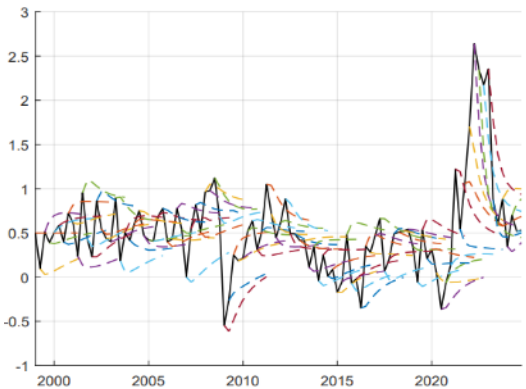
Comment 2: Do we need this machinery in calm times?

Do we need this type of machinery everywhere and always?

- In big schock scenario's: Yes?
- In small shock scenario's: Unclear?

State dependent pricing



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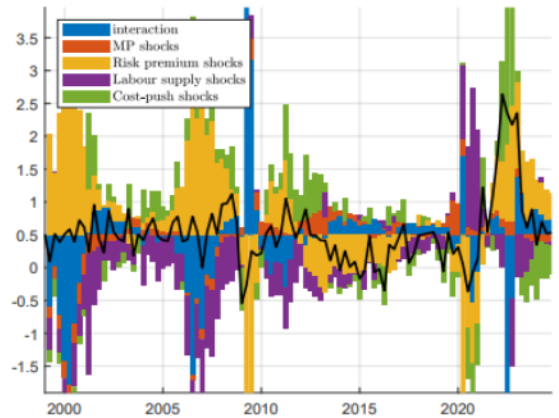

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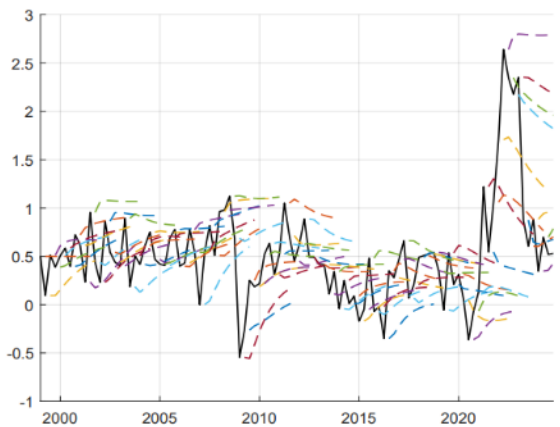

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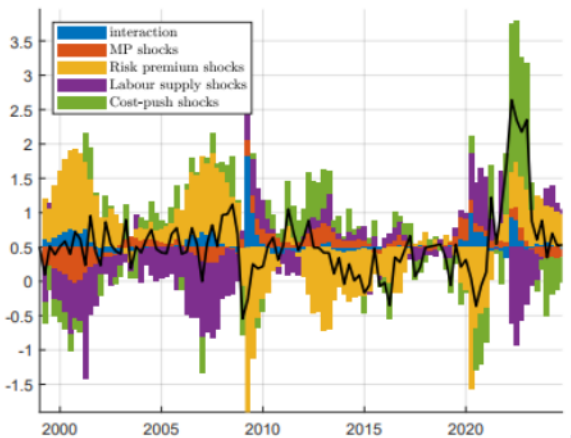
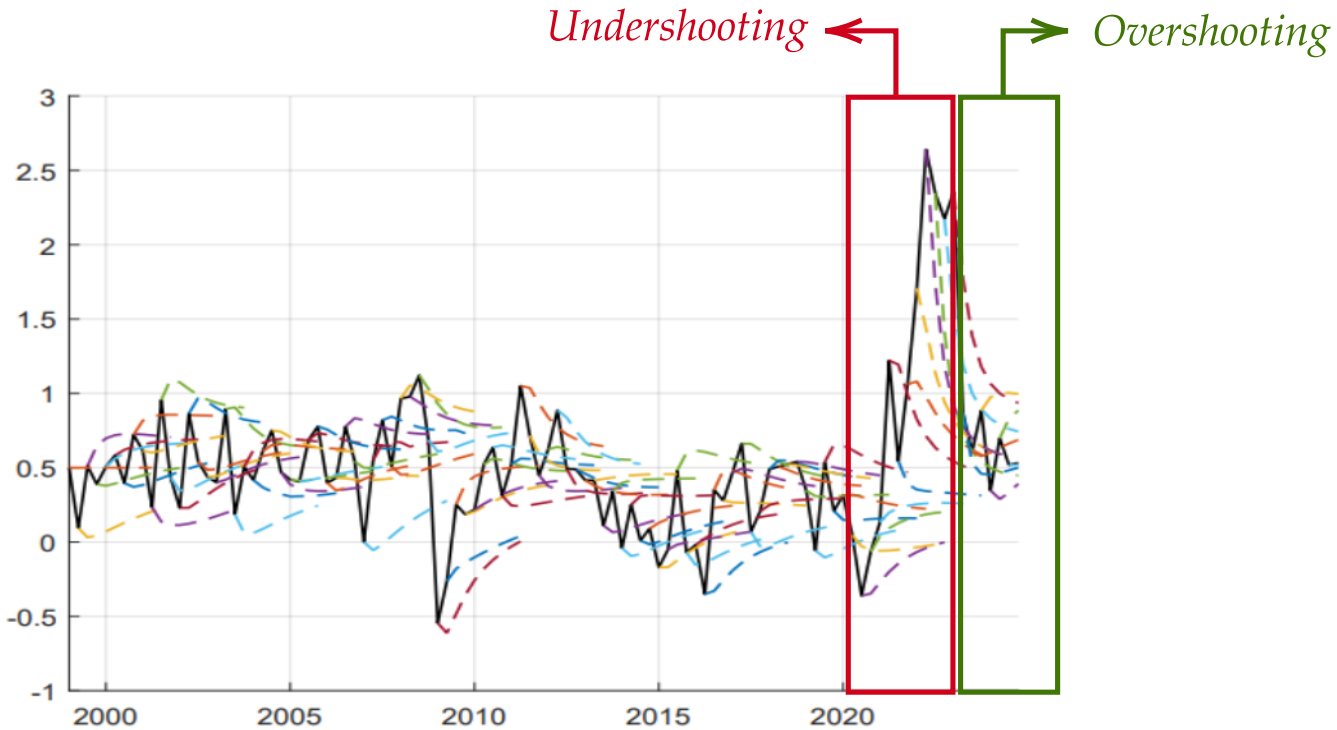


Comment 3: Automatic indexation

Do we really need automatic wage/price indexation?

- The model features automatic indexation
- Does this dampen the power of the state dependent pricing framework?



- Seems like it's "holding back" the force of state dependent pricing.

Conclusion

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   - Exciting work;
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2. **Three reflections**
   - Selection effect: missing curvyness?
   - Do we want this machinery always and everywhere?
   - Automatic wage/price indexation?

Thanks!

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