Discussion of "Regime Switches, Agents' Beliefs, and Post-WW II U.S. Macro Dynamics" by Francesco Bianchi

Discussant: Efrem Castelnuovo (University of Padua)

2nd *International Conference in Memory of Carlo Giannini*
Bank of Italy, January 19/20, 2010

What Francesco does

- ▶ AD/AS model à la LS (2004)
- ▶ *Regime-dependence* of the policy parameters & heteroskedasticity (two *independent* chains)
- ▶ Agents endowed with **probability distributions over future regimes** - role for credibility, communication
- ▶ Estimates it for the post-WWII U.S. economy - Bayesian algorithm to estimate MS-DSGE *via* Gibbs sampling

Main findings

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Francesco's paper
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Comments
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Wrapping up
○
Francesco's paper

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- *Recurrent* policy switches during the post-WWII U.S. period - 'pre- vs. post-Volcker' split *unwarranted*
- Policy switches and heteroskedasticity: *Not* synchronized
- **Beliefs** over future regimes: Relevant drivers

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5. Business cycle measurement

Time-varying trend inflation
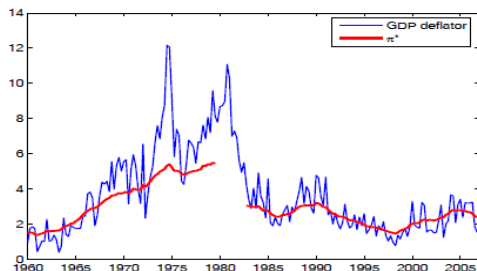
"Our results suggest that a reduced innovation variance for the inflation target was the single most important improvement in monetary policy during the Volcker-Greenspan years." [CPS (2009)]

Francesco's assumption

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- ► *Omitted* TVTI in a RS world: *Consequences*?

TV vs. fixed TI: Consequences
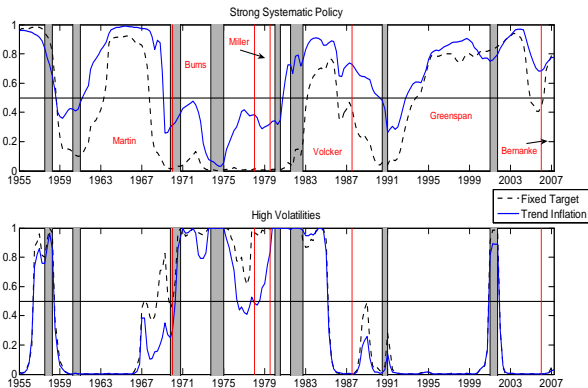
▶ Castelnuovo, Greco, and Raggi (2010): Effects of TVTI

Indeterminacy and the VAR facts

▶ *Fact #1*. LS (2004): *Indeterminacy* in the pre-Volcker era, sunspot shocks, *inflation exp. not anchored*
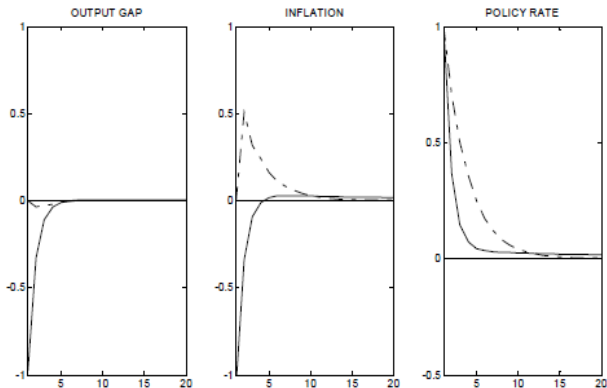
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- ► *Passive monetary policy* and the *price puzzle*: Any link?

Role of indeterminacy

▶ Castelnuovo and Surico (2009): Indeterminacy and VARs

Beliefs, mpolicy, and heteroskedasticity: Facts

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1. Inflation persistence
2. Great Moderation

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▶ Policy switches in your fmkt: *Omitted* information?

Business cycle as an observable

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▶ 'Multiple filtering' approach (Canova and Ferroni (2009))

Wrapping up

▶ Nice paper! I would like to understand better ...

1. Role of TVTInflation
2. Ability of the model to match some GModeration facts
3. Contribution of beliefs
4. How many results survive the 'scale effect'
5. Robustness to alternative business cycle representations

▶ Look forward to reading other papers in Francesco's agenda