

Discussion of

“Monetary Policy, Determinacy, and Learnability in the Open Economy” *by* James Bullard and Eric Schalling

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## International Research Forum on Monetary Policy



*I am ... one of the first to recognise  
the limits of policy co-ordination*

Similar line in recent academic literature (Obstfeld-Rogoff)

Does learning change this conclusion?

# What the paper asks

Simple 2-country New Keynesian model (CGG, AER 2002)

How do conditions for determinacy/learnability change due to open economy?

Can one country correct for indeterminacy/non-learnability in the other and create global determinacy?

Can one country make it easier for the other to achieve determinacy/learnability?

# What the paper says about instrument rules

PPI rule  $r_t = \varphi_\pi \pi_t + \varphi_y y_t$

Each country must satisfy own condition for determinacy

Conditions same form as in closed economy case

CPI rule  $r_t = \varphi_\pi \pi_{C,t} + \varphi_y y_t$

Small/large: separate conditions for determinacy in each country

Large/large: some (limited) scope to cooperate to obtain determinacy

$\varphi_\pi > 1$  is enough in all cases

# What the paper says about targeting rules

## Non-cooperative discretionary policy

Expectations-based implementation is determinate

Fundamentals-based implementation is indeterminate

## Co-operative discretionary policy

Determinate if sufficient persistence in cost-push shocks

**Confirms results from closed economy case**

# Learning + open economy = worried?

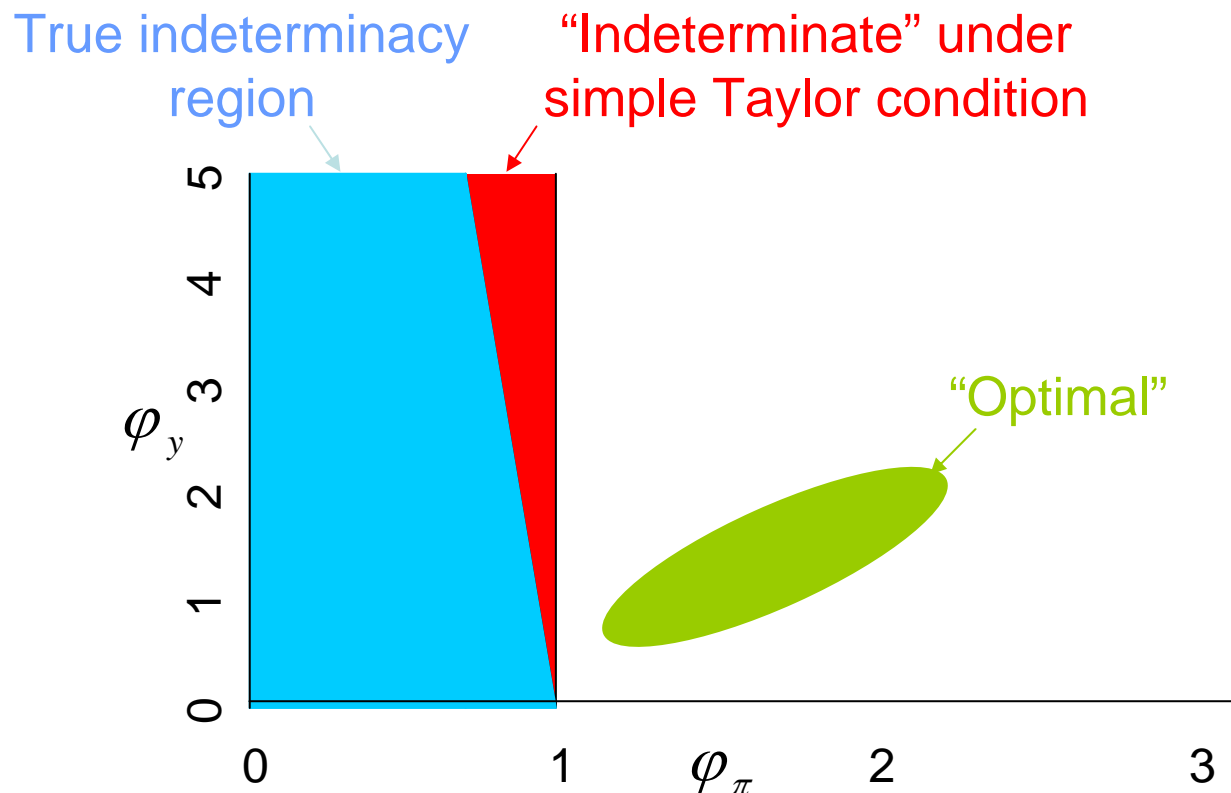
According to this paper, apparently **NOT**

Very little scope for cooperation to ensure determinacy / learnability

Each central bank should satisfy conditions separately

In all cases simple Taylor principle is sufficient

## Even less worrying?



Simple Taylor condition sufficient

Determinacy condition not binding constraint for optimality

# Should we worry about learning?

I think **YES**

Model is very simple. What about other models?

Determinacy/learnability only part of the story.

What about short-run dynamics?

Type of game matters for short-run dynamics ...

... so let's make sure we are learning to cooperate.

I wouldn't fancy learning to play 'beggar thy neighbour' with Alan Greenspan!