



BANQUE CENTRALE DU LUXEMBOURG  
EUROSYSTEMÈME

# Monetary policy transmission in EA by Bartosz Maćkowiak

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# Summary of Maćkowiak (2009)

- Compares AWM, NAWM and VAR
- NAWM responses much larger
- NAWM inflation response much faster
- VAR price puzzle
  - Sign restrictions yield wide bands

# Comments on IRF comparison

- Differences in data?
  - VAR: 3+4/5 series 1980-1998/06
  - AWM: 72 series 1970-2003
  - NAWM: 18 series 1985-2006
- Differences in shock implementation?
  - Different monetary policy rules
  - Different “intrinsic persistence”
- Difference in models?
  - Back/forward-looking expectations

# Comments on VAR price puzzle

- Short-run restrictions on output response
  - Sims (1986, FRB Minneapolis)
  - Quarterly vs. monthly frequency
- Exch. rates (why comm.prices in USD?)
  - UIP violations, carry trades, ERM crisis
- Banking sector (including reserves or M1)
  - Leeper, Sims, Zha (1996, BPEA)
- Structural breaks
  - time-varying policy objective?
  - Shorter sample?

# Identification issues

- Are we comparing *structural* shocks?
  - Changes in policy preferences
  - Technical errors implementing policy
  - Errors due to noisy real-time data
- *Dubiously* structural? Chari et al. (2008)
  - Wage/price markup, spending, risk-premia
  - Backwards indexation
  - Taylor rule (non-stationarity, long rates)
  - Conventional functional form assumptions

# Purpose of exercise

- Model evaluation? Schorfheide (2000)
- Jon Faust (1995)  
“Is applied mon. policy analysis hard?”
- Purpose of Central Bank models
  - Reduced-form forecasting
  - Refining economic intuition
  - Repository of baseline view of economy

# MTM challenges from financial crisis

- Financial frictions
  - Credit crunch: low interest+credit rationing
  - What are effects of quantitative easing?
  - Shifts in discount factor/risk premium
- Unemployment
  - 2010: is monetary policy too tight?
  - Labour market frictions (search & match)
- Public finance
  - Risk-premium impact on long-term rates
  - Combined fiscal-monetary exit strategies