Panel: Macroeconomics of price and wage-setting

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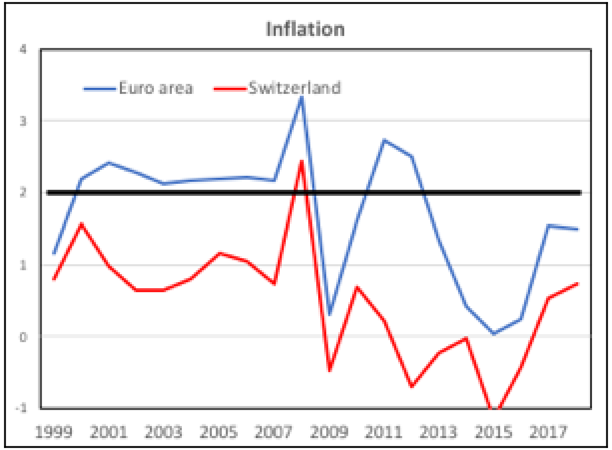
Three questions

1. Sources of low inflation
2. Implications of persistently low inflation for macroeconomic performance of euro area
3. Implications for monetary transmission mechanism

1. Sources of low inflation

- Lessons from presentations (and a large literature)
  - Cyclical conditions matter less and less for inflation
  - Outside developments matter more and more
  - Normal people don't care about monetary policy



Source: AMECO on line, SNB

1. Sources of low inflation

- Lessons from presentations (and a large literature)
  - Cyclical conditions matter less and less for inflation
  - Outside developments matter more and more
  - Normal people don't care about monetary policy
- The Phillips curve is alive, but not kicking much
  - Theory: $\pi_t = E_t(\pi_{t+1}) + \alpha x_t + \beta X_t$ Doesn't work
  - Practice: $\pi_t = \pi_{t-1} + \alpha x_t + \beta X_t$

stuck! weak beyond
unstable reach

2. Implications of persistently low inflation

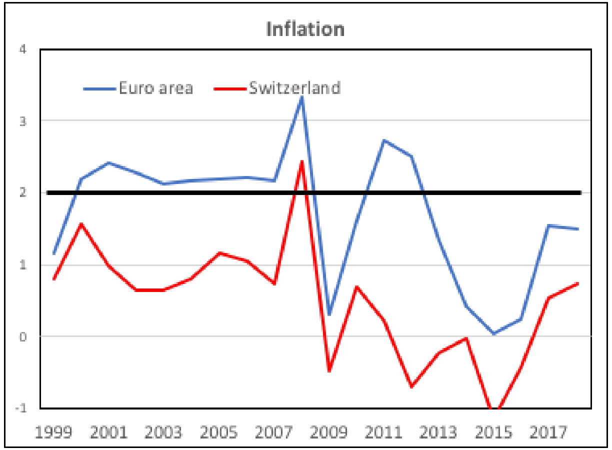
- No reason to expect lasting feedback from stable inflation to economic performance
- Except for monetary policy response
  - More expansionary if Phillips curve is flatter
  - But, fiscal policy
- The exchange rate
  - Effect increasingly muted
  - Temptation largely resisted
  - The special case of the Euro area member countries

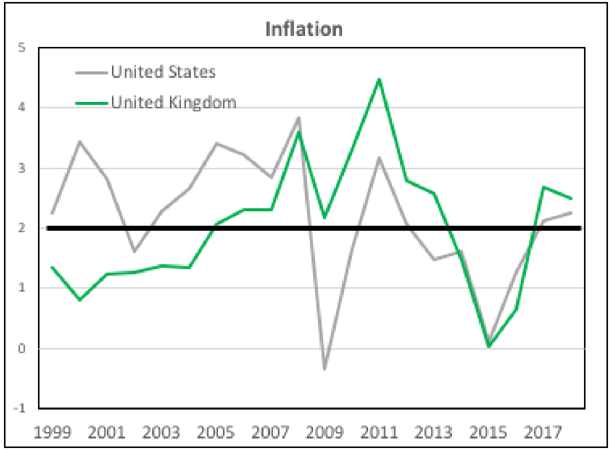
3. Implications for monetary transmission mechanism

3. Implications for monetary ~~transmission mechanism~~ policy

- Inflation targeting remains best strategy
  - Only alternative is nominal GDP targeting
- Interest rate instrument remains logical instrument
  - QE at zero lower bound
  - Possibly fine-tuned to shaping yield curve
- But…
  - Inflation target always elusive

Standard deviation	
Euro area	0.9
Switzerland	0.9
USA	1.1
U.K.	1.1





3. Implications for monetary ~~transmission mechanism~~ policy

- Inflation targeting remains best strategy
  - Only alternative is nominal GDP targeting
- Interest rate instrument remains logical instrument
  - QE at zero lower bound
  - Possibly fine-tuned to shaping yield curve
- But…
  - Inflation target always elusive
  - Precision is less than presumed, even in “medium term”
    - For reasons discussed + financial stability mandate
  - Wider margin would make even more sense
    - Too much preoccupation with markets or “experts”