Imperfect knowledge, adaptive learning and the bias against activist monetary policies

by Alberto Locarno

DISCUSSION

Marco Vega

Central Bank of Peru

November 7, 2006

WHAT THE PAPER DOES?

✓ Optimal monetary policy with

  — Incomplete knowledge (asymmetric information)

  — Adaptive learning

  — Quadratic loss function

  — Lexicographic loss function

✓ Main conclusion (at least to me)

  – Incomplete knowledge $+$ adaptive learning $\rightarrow$ induce a bias towards cautious policies

• Uncertainty $\rightarrow$ usually calls for less activism

• Standard Optimal monetary policy usually not so

GENERAL COMMENTS ABOUT THE PAPER

✓ Topic is very important, particularly for developing countries

✓ Policy implications need to be taken seriously by policy-makers

✓ The main conclusion might have been obtained under standard quadratic framework with adaptive learning

SPECIFIC COMMENTS

✓ Do central banks *manipulate* or *manage* expectations?

✓ The central bank has informational advantage. But transparency implies that the central bank should not conceal advantageous information

✓ So, it would perhaps be better to give private agents with informational advantage.

SPECIFIC COMMENTS

✓ A possible extension: Incomplete information about the central bank
   loss function