



International Finance Discussion Papers: Managing Beliefs about Monetary Policy Under Discretion

By Elmar Mertens

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.In models of monetary policy, discretionary policymaking often lacks the ability to manage public beliefs, which explains the theoretical appeal of policy rules and commitment strategies. But as shown in this paper, when a policymaker possesses private information, belief management becomes an integral part of optimal discretion policies and improves their performance. Solving for optimal policy in a simple New Keynesian model, this paper shows how discretionary losses are reduced when the policymaker has private information. Furthermore, disinflations are pursued more vigorously, when the hidden information problem is larger, even when inflation is partly backward-looking.



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