
LABOR MARKETS
IN TRANSITION:
Demographics, Productivity and Macroeconomic Policy
JACKSON HOLE ECONOMIC POLICY SYMPOSIUM
FEDERAL RESERVE BANK OF KANSAS CITY
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BEYOND THE TAYLOR RULE

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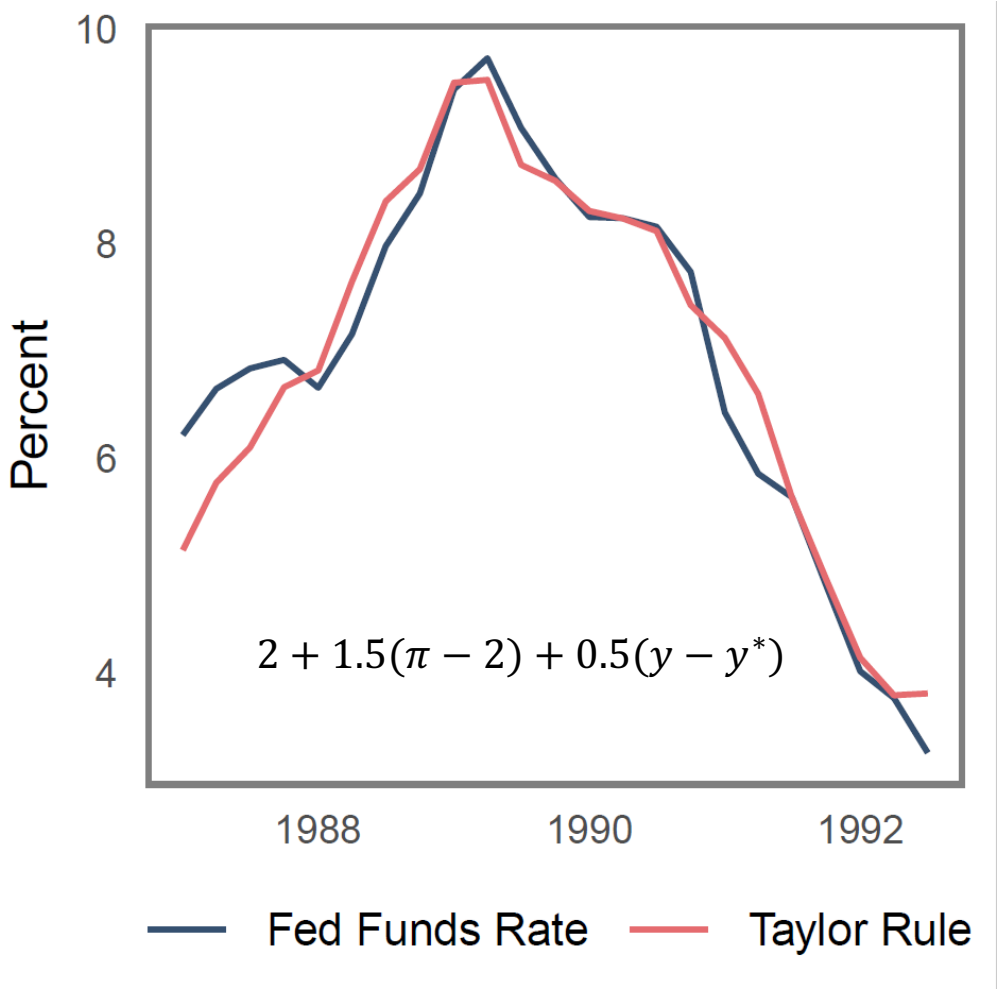
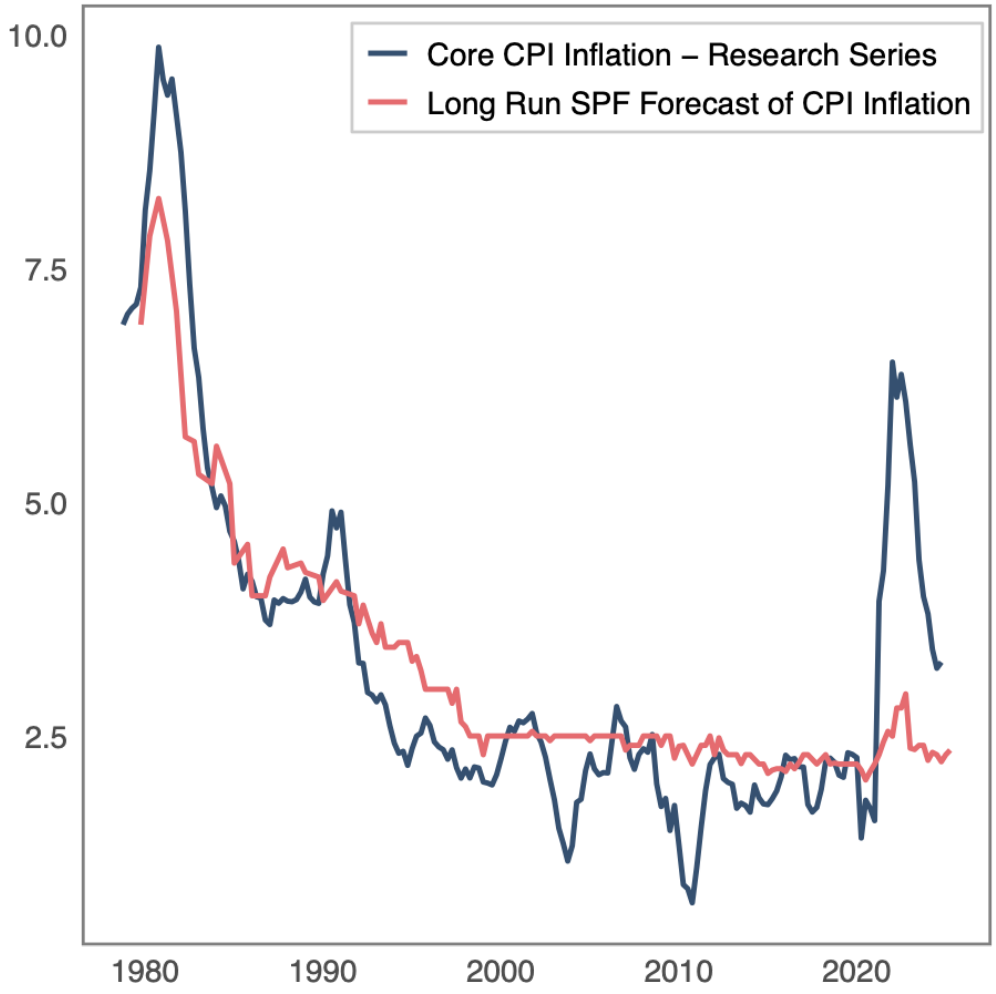
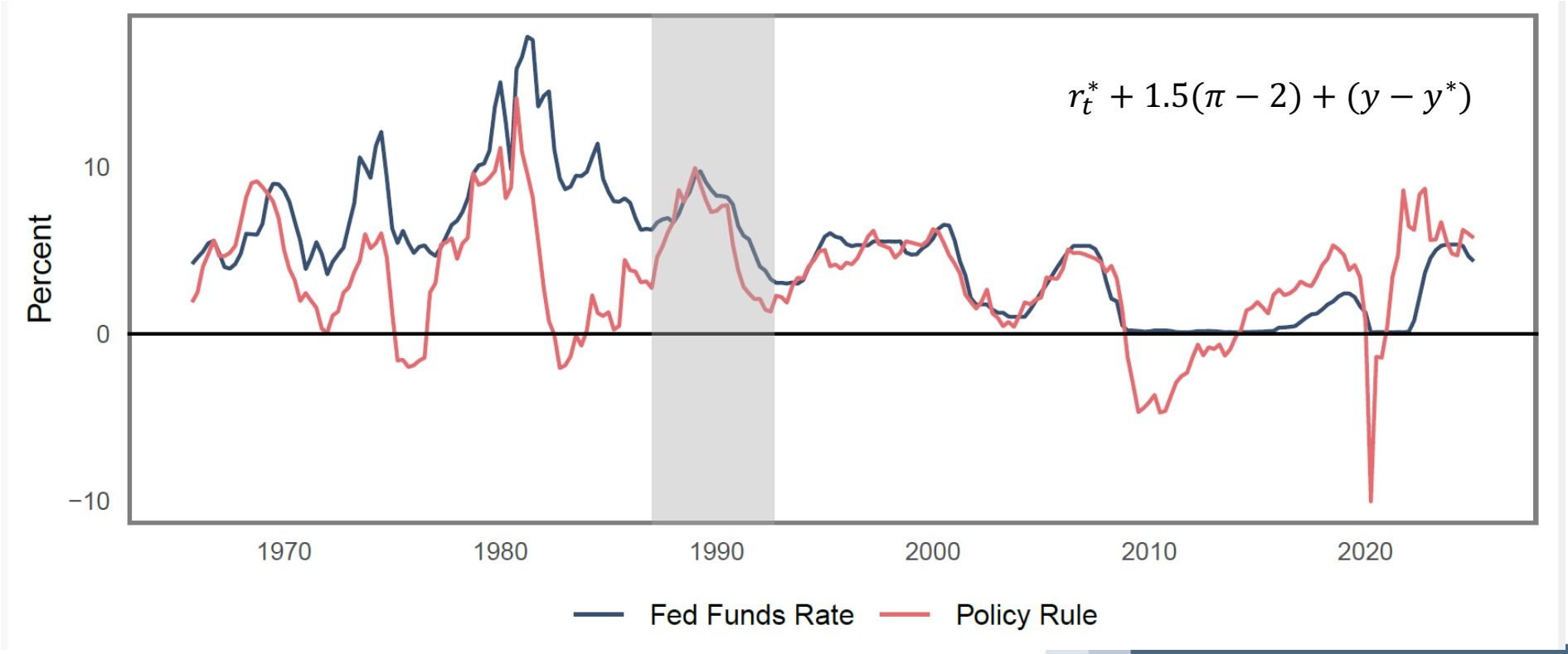
Origins of the Taylor Rule: 1987-1992



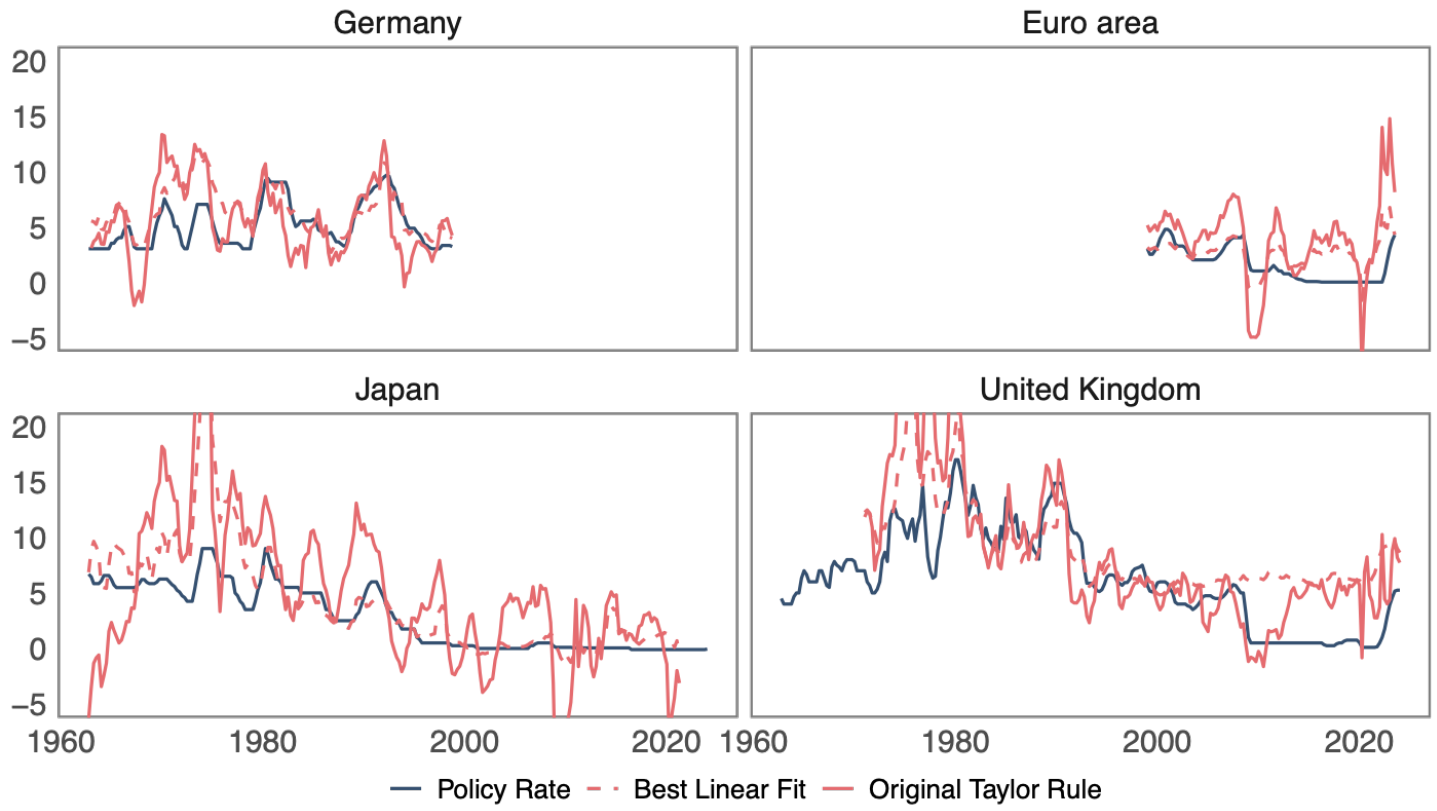
Long-Run Expectations vs. Core Inflation: 1970s vs Today



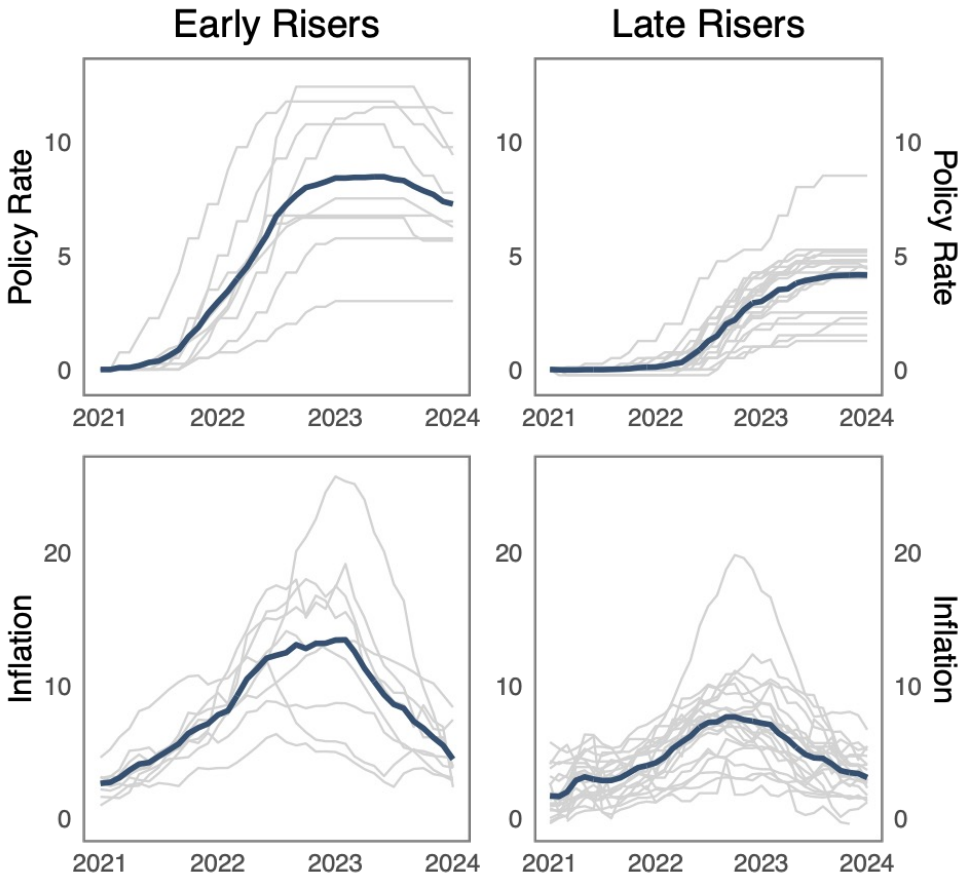
Descendent of the Taylor Rule: “Balanced” Approach

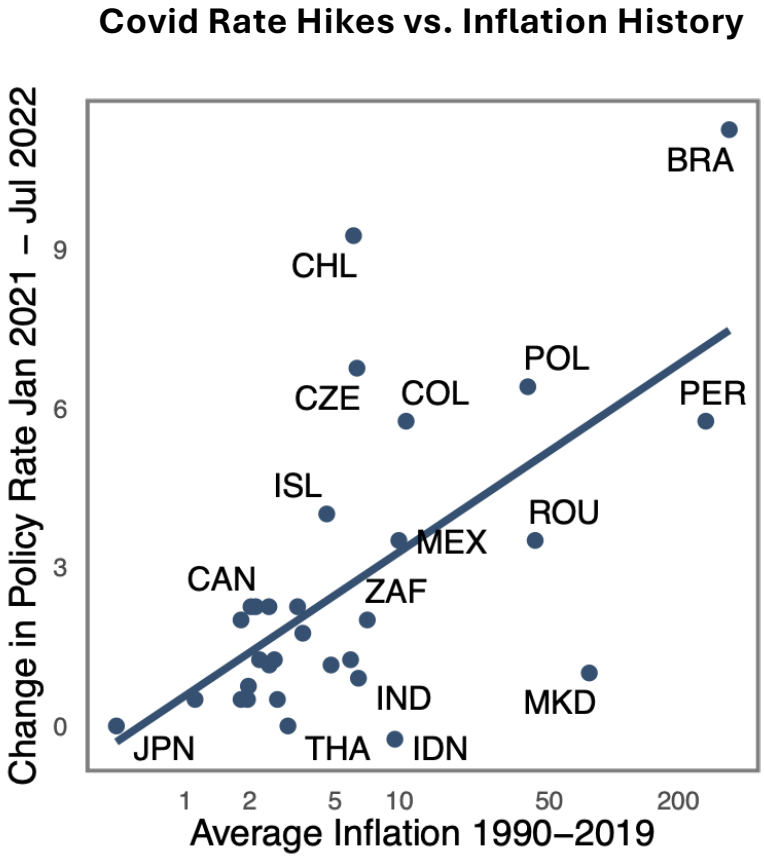


G7 Monetary Policy (Blue= actual, Red= Taylor Rule)



Covid: Early and Late Risers

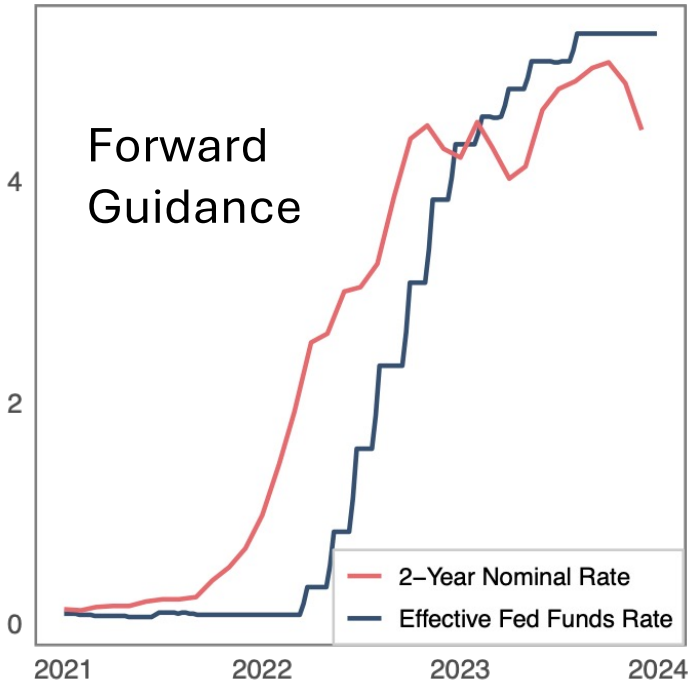




The View from Monetary Theory

Taylor principle *may* be violated under optimal policy with cost-push shocks

Weight on Output Gap	Inflation	Output Gap	$\phi_\pi + \phi_y \frac{1-\beta}{4\kappa}$
5	0.84	0.85	0.93
1	0.81	0.47	0.86
0.1	0.60	0.13	0.62
0.01	-0.94	-0.07	-0.95

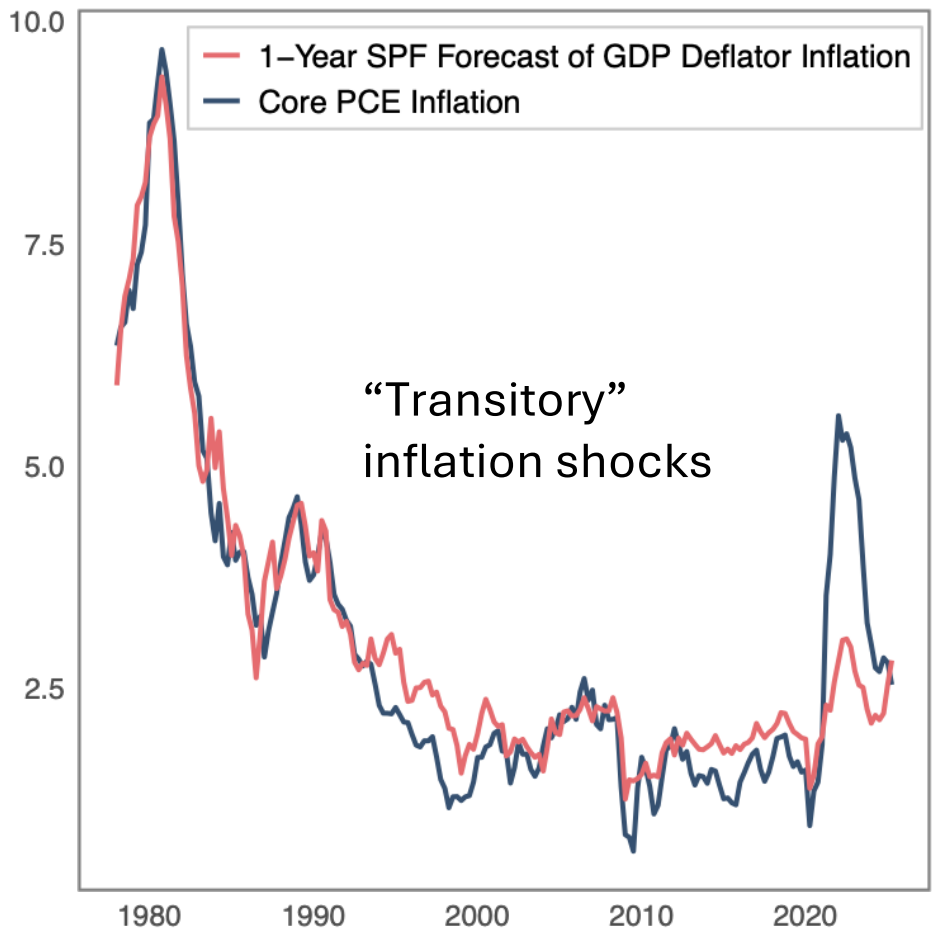


The View from Monetary Theory

Taylor principle may also (optimally) be violated due to:

- Shocks to natural rate correlated w/ cost-push shocks
- Delayed effects of monetary policy

- Academic literature tends to shy away from this analysis due to fears of indeterminacy
  - We argue this should not be CB's primary concern



Nominal and Real Yields