



Research Working Papers

Monetary Policy, Trend Inflation, and the Great Moderation: An Alternative Interpretation

by: Willem Van Zandweghe, Yasuo Hirose and Takushi Kurozumi

December 30, 2015

This paper re-examines the role of trend inflation in the U.S. economy's shift from the Great Inflation era to the Great Moderation era.

RWP 15-17, December 2015

What caused the U.S. economy's shift from the Great Inflation era to the Great Moderation era? A large literature shows that the shift was achieved by the change in monetary policy from a passive to an active response to inflation. However, Coibion and Gorodnichenko (2011) attribute the shift to a fall in trend inflation along with the policy change, based on a solely estimated Taylor rule and a calibrated staggered-price model. We estimate the Taylor rule and the staggered-price model jointly and demonstrate that the change in monetary policy responses to inflation and other variables suffices for explaining the shift.

JEL Classification: C11; E31; E52

Article Citation

- Hirose, Yasuo, Takushi Kurozumi and Willem Van Zandweghe. 2015. "Monetary Policy, Trend Inflation, and the Great Moderation: An Alternative Interpretation: Comment Based on System Estimation," Federal Reserve Bank of Kansas City, working paper no. 15-17, December, available at <https://doi.org/10.18651/RWP2015-17>

Related Research

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