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Soggetti	Inflation (Finance) Fiscal policy Inflation Money and Monetary Policy Economic Theory Production and Operations Management Price Level Deflation Monetary Policy Macroeconomics: Production Agriculture: Aggregate Supply and Demand Analysis Prices Macroeconomics Monetary economics Economic theory & philosophy Inflation targeting Output gap Supply shocks Disinflation Monetary policy Production Economic theory Supply and demand United States

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Nota di contenuto	Contents; I. Introduction; II. The Model; A. Inflation Process with Endogenous Credibility; A.1 Inflation equation-an expectations-augmented Phillips curve; A.2 Output Gap equation; A.3 Exchange rate-real interest rate parity equation; A.4 Monetary policy loss function; A.5 Note on calibration; III. Optimal Disinflation; A. Initial Condition; B. Disinflation Under Various Degrees of Credibility; IV. Optimal Responses to Shocks; A. Initial Conditions; B. Supply Shocks; C. Demand Shocks; V. Costs of Delaying Interest Rate Increase Under Imperfect Credibility; VI. Concluding Remarks; References Figures1. Disinflation with Equal Weights on Inflation, Output and Interest Rate Variability; 2. Disinflation with Lower Weights on Output and Interest Rate Variability; 3. Responses to Unfavorable and Favorable Supply Shocks (Positive Shock Circle; Negative Shock Triangle); 4. Responses to Positive and Negative Demand Shocks (Positive Shock Circle Negative Shock Triangle); 5. Cost of Delaying Interest Rate Hikes in Response to an Unfavorable Supply Shock in an Economy with High Inflation and Low Initial Credibility (No Delay Triangle; Delay Circle)
Sommario/riassunto	This paper presents a model for Inflation Targeting under imperfect policy credibility. It modifies the conventional model in three ways: an endogenous policy credibility process, by which monetary policy can gain or lose credibility over time; non-linearities in the inflation equation and in the credibility generating process; and an explicit loss function. The model highlights problems associated with the practice of setting a series of rigid near-term inflation targets. Also, unfavorable supply shocks pose a difficult problem: an appropriate response involves an interest rate increase, some loss of output, and a period of increased inflation. A delayed response can result in a prolonged period of stagflation.