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Nota di contenuto	Contents; I. Introduction; II. The Model; A. Households; B. Firms; C. The Government Budget Constraint and Foreign Asset Accumulation; D. The Equilibrium; E. Specialization of the Household's Utility Function; F. State Space Representation; G. The Small Open Economy; H. Calibration; III. Monetary Policy Interest Rate Rules; IV. Fiscal Rules; A. A Conventional Fiscal Rule; B. The Structural Fiscal Surplus Rule; V. Imposing the Nominal Interest Rate Zero Lower Bound; VI. Optimal Monetary and Fiscal Policy with Financial Frictions; A. Imposing the ZLB; Figures; 1. Imposition of ZLB: Model I
	2. Imposition of ZLB: Model IIIB. Welfare Decomposition; C. Impulse Responses; 3. Impulse Responses to a-1 Percent Technology Shock. Models I, II, and III; VII. The Performance of Optimized Simple Rules; 4. Imposition of ZLB: Flex(D)+Conventional Fiscal Rule, Model I; 5. Imposition of ZLB: Flex(D)+Conventional Fiscal Rule: Model III; VIII. Conclusions; Tables; 1. Notation for Prices; 2. Welfare Outcomes Under Optimal Policy: No ZLB Constraint; 3. Optimal Policy with a ZLB Constraint: Monetary Policy Only for Model I

4. Optimal Commitment with a ZLB Constraint. Monetary Plus Fiscal Policy for Model I5. Welfare Outcomes Under Optimal Policy: ZLB Constraint; 6. Welfare Decomposition of Shocks; 7. Welfare Outcomes Under Optimized Simple Rules: FLEX (D) with a Conventional Fiscal Rule. Models I, II and III; 8. Welfare Outcomes Under Optimized Simple Rules: FIX with a Conventional Fiscal Rule. Models I, II and III; 9. Welfare Outcomes Under Optimized Simple Rules: FLEX(C) with a Conventional Fiscal Rule. Models I, II and III

10. Welfare Outcomes Under Optimized Simple Rules: FLEX(D) with a Modified SFSR. Models I, II and IIIAppendixes; 1. The Steady State; 2. Linearization; 3. Calibration and Estimation; 4. Quadratic Approximation of the Welfare Loss

| Sommario/riassunto | We develop a optimal rules-based interpretation of the 'three pillars macroeconomic policy framework': a combination of a freely floating exchange rate, an explicit target for inflation, and a mechanism than ensures a stable government debt-GDP ratio around a specified long run. We show how such monetary-fiscal rules need to be adjusted to accommodate specific features of emerging market economies. The model takes the form of two-blocs, a DSGE emerging small open economy interacting with the rest of the world and features, in particular, financial frictions It is calibrated using Chile and US data. Alongside the optimal Ramsey policy benchmark, we model the three pillars as simple monetary and fiscal rules including and both domestic and CPI inflation targeting interest rate rules alongside a 'Structural Surplus Fiscal Rule' as followed recently in Chile. A comparison with a fixed exchange rate regime is made. We find that domestic inflation targeting is superior to partially or implicitly (through a CPI inflation target) or fully attempting to stabilizing the exchange rate. Financial frictions require fiscal policy to play a bigger role and lead to an increase in the costs associated with simple rules as opposed to the fully optimal policy. |