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Nota di contenuto	<p>Intro -- CONTENTS -- Introduction -- I. Inflation Targeting in an Open Economy -- II. Model Characteristics and Calibration -- The small open economy model -- Calibration of "advanced" and "emerging economy" models -- III. A Taxonomy of Hybrid Inflation Targeting Approaches -- "Plain vanilla" inflation targeting in an open economy -- Open-economy inflation targeting -- Inflation targeting with an exchange rate band -- Exchange rate-based inflation targeting -- IV. Evaluation of Hybrid Inflation Targeting Rules -- Hybrid policy rules and the inflation-output volatility trade-off -- How much weight to put on the exchange rate in a hybrid policy rule? -- How hybrid policy rules affect a wider range of macroeconomic variables? -- General assessment -- Caveats -- Tables -- 1. Macroeconomic and Financial Volatility Associated with Alternative Policy Rules -- Figures -- 1. Plain Vanilla Inflation Targeting in the Robust Advanced Economy and the Vulnerable Emerging Economy -- 2. Alternative Hybrid Policy Rules and the Variability of Inflation and Output in Advanced and Emerging Market Economies -- 3. The Impact of Exchange Rate Smoothing on the Variability of Inflation and Output in Robust Advanced and Vulnerable Emerging Market Economies -- 4. Performance of Alternative Policy Rules on Macroeconomic and Financial Volatility in Advanced and Emerging Market Economies -- Appendices -- I. Optimization in the Model -- II. Calibration of the Model -- A. Construction of Volatility Trade-off Frontiers -- B. Impulse Responses -- Domestic demand shocks -- Cost-push shocks -- Risk premium shocks -- C. Volatility of Macroeconomic and Financial Variables Under Different Policy Rules -- III. Simulations -- Appendix Tables -- 1. Parameter Calibration of the Advanced and Emerging Market Economy -- 2. Reaction Function Coefficients.</p> <p>3a. Performance of Alternative Policy Rules in Response to Demand Shocks -- 3b. Performance of Alternative Policy Rules in Response to Cost-Push Shocks -- 3c. Performance of Alternative Policy Rules in Response to Risk Premium Shocks -- Appendix Figures -- 1. Inflation and Output Volatility With Demand Shocks and Plain Vanilla Inflation Targeting -- 2. Responses to a Demand Shock -- 3. Responses to a Cost-push Shock -- 4. Responses to a Risk Premium Shock -- References.</p>
Sommario/riassunto	<p>This paper uses a DSGE model to examine whether including the exchange rate explicitly in the central bank's policy reaction function can improve macroeconomic performance. It is found that including an element of exchange rate smoothing in the policy reaction function is helpful both for financially robust advanced economies and for financially vulnerable emerging economies in handling risk premium shocks. As long as the weight placed on exchange rate smoothing is</p>

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relatively small, the effects on inflation and output volatility in the event of demand and cost-push shocks are minimal. Financially vulnerable emerging economies are especially likely to benefit from some exchange rate smoothing because of the perverse impact of exchange rate movements on activity.

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