You are kindly invited to attend a Joint Seminar of the National Bank of Belgium, CES-KUL, Ecares-ULB and UCL

by

Jesper Lindé (Federal Reserve Board and CEPR)

on

Designing a Simple Loss Function for the Fed: Does the Dual Mandate Make Sense?
(with Davide Debortoli, Jinill Kim, Ricardo Nunes)

Abstract

Using the workhorse Smets and Wouters (2007) model of the U.S. economy, we find that the role of the output gap should be equal or even more important than inflation when designing a simple loss function to approximate household welfare. Moreover, we document that a loss function with nominal wage inflation and the hours gap provides an even better approximation of the true welfare function than a standard objective based on inflation and the output gap. Our results hold up when we introduce interest rate smoothing in the objective to capture the observed gradualism in policy behavior and ensure that the probability of the federal funds rate hitting the zero lower bound is negligible.

The seminar (sandwiches will be available) will take place on Thursday, 30 January from 12:00 until 13:30.

The seminar will exceptionally be held in the National Bank of Belgium, Room 10, 5th floor, Entrance: boulevard de Berlaaimont 3, Brussels.

Please reply by email to nbb.seminars@nbb.be if you wish to participate to this seminar. With name and car plate number to access the NBB Parking Warmoesberg 41.

Kind regards,

H. Dewachter (NBB-KUL), R. Kollmann (ULB), V. Lewis (KUL), L. Pensieroso (UCL) and R. Wouters (NBB)