

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Siddhartha Chattopadhyay, IIT Kharagpur

TITLE: Monetary Policy Switching to Avoid a Liquidity Trap

TIME: 11:30 AM - 1:00 PM.

DAY & DATE: Friday, 20th January, 2012

PLACE: Seminar Room 2

Abstract:

We propose a monetary-policy-switching Taylor Rule, which would allow the economy to avoid a liquidity trap. In the event of a demand shock, large enough to send the nominal interest rate below zero under a Taylor Rule with a fixed long-run inflation target, the monetary authority switches to a higher short-run inflation target which decays toward the long-run target over time. If the short-run target is sufficiently persistent, then the increase in inflationary expectations is large enough to raise inflation and output even though the nominal interest rate does not fall below zero. The switching regime imparts an inflation bias to policy, but avoids indeterminacy created by the fixed nominal interest rate in a liquidity trap.

<http://www.isid.ac.in/~pu/seminar.html>