This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: The Inflation-Targeting Debate

Volume Author/Editor: Ben S. Bernanke and Michael Woodford, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-04471-8

Volume URL: http://www.nber.org/books/bern04-1

Conference Date: January 23-26, 2003

Publication Date: December 2004

Title: Front matter, The Inflation-Targeting Debate

Author: Ben S. Bernanke, Michael Woodford

URL: http://www.nber.org/chapters/c9552

The Inflation-Targeting Debate



National Bureau of Economic Research— Studies in Business Cycles Volume 32

The Inflation-Targeting Debate

Edited by Ben S. Bernanke and Michael Woodford

The University of Chicago Press

Chicago and London

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London
© 2005 by the National Bureau of Economic Research
All rights reserved. Published 2005
Paperback edition 2006
Printed in the United States of America
14 13 12 11 10 09 08 07 06 2 3 4 5
ISBN: 0-226-04471-8 (cloth)
ISBN-13: 978-0-226-04472-9 (paper)
ISBN-10: 0-226-04472-6 (paper)

The following contributions were produced as works of the U.S. government: "Imperfect Knowledge, Inflation Expectations, and Monetary Policy," the Comment to "Inflation Targeting in the United States," and the Comment to "Inflation Targeting and Sudden Stops." No copyright is claimed for these materials.

Library of Congress Cataloging-in-Publication Data

The inflation targeting debate / edited by Ben S. Bernanke and Michael Woodford.

p. cm. — (National Bureau of Economic Research studies in business cycles; v. 32)

"This volume grew out of a National Bureau of Economic Research conference on inflation targeting held in Bal Harbour, Florida, in January 2003."

Includes bibliographical references and index.

ISBN 0-226-04471-8 (cloth: alk paper)

1. Inflation (Finance)—Congresses. 2. Monetary policy—Congresses. I. Bernanke, Ben. II. Woodford, Michael, Professor. III. National Bureau of Economic Research. IV. Studies in business cycles; v. 32.

HG229 .I45636 2004 332.4'1—dc22

2004055352

The paper used in this publication meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1992.

National Bureau of Economic Research

Officers

Michael H. Moskow, chairman Elizabeth E. Bailey, vice-chairman Martin Feldstein, president and chief executive officer

Susan Colligan, vice president for administration and budget and corporate secretary Robert Mednick, treasurer Kelly Horak, controller and assistant corporate secretary

Gerardine Johnson, assistant corporate secretary

Directors at Large

Peter C. Aldrich Martin Feldstein Laurence H. Meyer Elizabeth E. Bailey Jacob A. Frenkel Michael H. Moskow Judith M. Gueron Alicia H. Munnell John H. Biggs Andrew Brimmer Robert S. Hamada Rudolph A. Oswald John S. Clarkeson George Hatsopoulos Robert T. Parry Don R. Conlan Karen N. Horn Richard N. Rosett George C. Eads Judy C. Lewent Marina v. N. Whitman Jessica P. Einhorn John Lipsky Martin B. Zimmerman

Directors by University Appointment

George Akerlof, *California, Berkeley* Jagdish Bhagwati, *Columbia* Michael J. Brennan, *California, Los Angeles* Glen G. Cain, *Wisconsin*

Ray C. Fair, *Yale* Franklin Fisher, *Massachusetts Institute* of *Technology*

Saul H. Hymans, Michigan

Marjorie B. McElroy, *Duke*Joel Mokyr, *Northwestern*

Andrew Postlewaite, Pennsylvania Uwe E. Reinhardt, Princeton Nathan Rosenberg, Stanford Craig Swan, Minnesota David B. Yoffie, Harvard Arnold Zellner, Chicago

Directors by Appointment of Other Organizations

Richard B. Berner, National Association for Business Economics

Gail D. Fosler, *The Conference Board* A. Ronald Gallant, *American Statistical*

Association
Richard C. Green, American Finance
Association

Thea Lee, American Federation of Labor and Congress of Industrial Organizations

Robert Mednick, American Institute of Certified Public Accountants Angelo Melino, Canadian Economics Association

Jeffrey M. Perloff, American Agricultural Economics Association

John J. Siegfried, American Economic Association

Josh S. Weston, Committee for Economic Development

Gavin Wright, Economic History Association

Directors Emeriti

Carl F. Christ Paul W. McCracken Eli Shapiro Lawrence R. Klein Peter G. Peterson Franklin A. Lindsay Bert Seidman

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

- 1. The object of the NBER is to ascertain and present to the economics profession, and to the public more generally, important economic facts and their interpretation in a scientific manner without policy recommendations. The Board of Directors is charged with the responsibility of ensuring that the work of the NBER is carried on in strict conformity with this object.
- 2. The President shall establish an internal review process to ensure that book manuscripts proposed for publication DO NOT contain policy recommendations. This shall apply both to the proceedings of conferences and to manuscripts by a single author or by one or more coauthors but shall not apply to authors of comments at NBER conferences who are not NBER affiliates.
- 3. No book manuscript reporting research shall be published by the NBER until the President has sent to each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the above principles of the NBER. Such notification will include a table of contents and an abstract or summary of the manuscript's content, a list of contributors if applicable, and a response form for use by Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied and the main conclusions reached.
- 4. No volume shall be published until forty-five days have elapsed from the above notification of intention to publish it. During this period a copy shall be sent to any Director requesting it, and if any Director objects to publication on the grounds that the manuscript contains policy recommendations, the objection will be presented to the author(s) or editor(s). In case of dispute, all members of the Board shall be notified, and the President shall appoint an ad hoc committee of the Board to decide the matter; thirty days additional shall be granted for this purpose.
- 5. The President shall present annually to the Board a report describing the internal manuscript review process, any objections made by Directors before publication or by anyone after publication, any disputes about such matters, and how they were handled.
- 6. Publications of the NBER issued for informational purposes concerning the work of the Bureau, or issued to inform the public of the activities at the Bureau, including but not limited to the NBER Digest and Reporter, shall be consistent with the object stated in paragraph 1. They shall contain a specific disclaimer noting that they have not passed through the review procedures required in this resolution. The Executive Committee of the Board is charged with the review of all such publications from time to time.
- 7. NBER working papers and manuscripts distributed on the Bureau's web site are not deemed to be publications for the purpose of this resolution, but they shall be consistent with the object stated in paragraph 1. Working papers shall contain a specific disclaimer noting that they have not passed through the review procedures required in this resolution. The NBER's web site shall contain a similar disclaimer. The President shall establish an internal review process to ensure that the working papers and the web site do not contain policy recommendations, and shall report annually to the Board on this process and any concerns raised in connection with it
- 8. Unless otherwise determined by the Board or exempted by the terms of paragraphs 6 and 7, a copy of this resolution shall be printed in each NBER publication as described in paragraph 2 above.

Contents

Acknowledgments	ix
Introduction Ben S. Bernanke and Michael Woodford	1
What Has Inflation Targeting Achieved? Mervyn King	11
S	
Implementing Optimal Policy through Inflation-Forecast Targeting Lars E. O. Svensson and Michael Woodford Comment: Bennett T. McCallum Discussion Summary	19
Optimal Inflation-Targeting Rules Marc P. Giannoni and Michael Woodford Comment: Edward Nelson Discussion Summary	93
Inflation Targeting, Price-Path Targeting, and Output Variability Stephen G. Cecchetti and Junhan Kim Comment: N. Gregory Mankiw Discussion Summary	173
	Introduction Ben S. Bernanke and Michael Woodford What Has Inflation Targeting Achieved? Mervyn King Implementing Optimal Policy through Inflation-Forecast Targeting Lars E. O. Svensson and Michael Woodford Comment: Bennett T. McCallum Discussion Summary Optimal Inflation-Targeting Rules Marc P. Giannoni and Michael Woodford Comment: Edward Nelson Discussion Summary Inflation Targeting, Price-Path Targeting, and Output Variability Stephen G. Cecchetti and Junhan Kim Comment: N. Gregory Mankiw

5.	Imperfect Knowledge, Inflation Expectations, and Monetary Policy Athanasios Orphanides and John C. Williams Comment: George W. Evans Discussion Summary	201
II. CRITICAL PERSPEC	CTIVES	
6.	Does Inflation Targeting Matter? Laurence Ball and Niamh Sheridan Comment: Mark Gertler Discussion Summary	249
7.	Limits to Inflation Targeting Christopher A. Sims Comment: Stephanie Schmitt-Grohé Discussion Summary	283
8.	Inflation Targeting in the United States? Marvin Goodfriend Comment: Donald L. Kohn Discussion Summary	311
III. INFLATION TARG	ETING FOR EMERGING MARKETS	
9.	Inflation Targeting in Transition Economies: Experience and Prospects Jiri Jonas and Frederic S. Mishkin Comment: Olivier Blanchard Discussion Summary	353
10.	Inflation Targeting and Sudden Stops Ricardo J. Caballero and Arvind Krishnamurthy Comment: Ben S. Bernanke Discussion Summary	423
	Contributors Author Index Subject Index	447 451 455

Acknowledgments

This volume grew out of a National Bureau of Economic Research (NBER) conference on inflation targeting held in Bal Harbour, Florida, in January 2003. We are grateful to many people who made the conference and the resulting volume possible. In particular, we would like to thank Martin Feldstein and the NBER for support; the NBER's conference staff for excellent logistical arrangements for the conference; and Helena Fitz-Patrick for shepherding the volume through the publication process. We would also like to thank Thomas Laubach for preparation of the summaries of the discussions at the conference and all of the contributors to the volume for the work they have done to bring insights from current research to bear on a topic of current practical importance.