Dynare Exercise
Outline

• Review Dynare syntax

• Exercises with simple NK model
  – Rationale for the Taylor principle.
  – Potential conflict between working capital channel and Taylor principle.
  – Sensitivity of dynamic response of inflation and output gap to persistence of shock.
  – In examples when Taylor rule moves the interest rate in the right direction, does not move it far enough.
  – The Taylor rule may push the interest rate in the wrong direction when there are news shocks.