

Discussion of
"Employment, Wages and Optimal Monetary Policy"
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- Ways to capture the cyclical properties of employment and wages:
 - nominal wage rigidities.
 - search and matching frictions in labor markets.
- Bodenstein and Zhao (2016) study optimal monetary policy when policymakers view both approaches as providing a reasonable fit to the data.

Summary of Main Results

- Optimal targeting rules are not robust.
 - two models produce very similar impulse response for common variables under the estimated policy rules.
 - the responses differ importantly when monetary policy is chosen optimally.
 - high weight on stabilizing wage inflation if nominal wage rigidities.
 - high weight on price inflation if search frictions.
 - a policy dilemma.
- Robust policy for model uncertainty:
 - optimal simple rule (osr): $i_t = \rho_R i_{t-1} + \rho_\pi \pi_t + \rho_\pi^w \pi_t^w + \rho_x x_t$.
 - $\Theta = \{\rho_R, \rho_\pi, \rho_\pi^w, \rho_x\}$.
 - the Bayesian strategy $\mathcal{L}^{\text{Bayesian}} = \omega \mathcal{L}^{\text{s\&m}}(\Theta) + (1 - \omega) \mathcal{L}^{\text{sw}}(\Theta)$.
 - the minmax strategy: $\mathcal{L}^{\text{minmax}} = \max \left\{ \mathcal{L}^{\text{s\&m}}(\Theta), \mathcal{L}^{\text{sw}}(\Theta) \right\}$.
 - osr is generally biased towards stabilizing wage inflation.

- Lessons from this financial crisis:
 - in addition to tfp and markup shock, what about financial shock?
 - relevant because of labor wedge and the divergence of ALP and working hours.
 - what about financial stability and macro-prudential policy?
 - Gali (2014): should the central bank response to asset bubble? optimal policy?

$$i_t = \dots + \rho_b b_t.$$

- Fujimoto et al (2016): endogenous target of financial stability if introducing search frictions in credit market ala Wasmer and Weil (2004).

$$\mathcal{L} = \dots + \lambda_\theta \theta^2.$$

- large deviation during crisis.
- ZLB or even negative interest rate.

- The absence of learning dynamics.
 - monetary authority may adjust the prob. distribution over the set of preferences based on realized data.
 - even learning through experimentation.
- How we model wage stickiness/rigidities might matter.
 - Schmitt-Grohe and Uribe (2016): $W_{t+1} \geq \gamma W_t$.
- To way to cure Shimer puzzle.
 - the inverse Frisch elasticity is set as 0.5.
 - macro: 2 – 4.
 - more close to micro estimate by Chetty et al (2012).

- Bodenstein and Zhao (2016) study optimal monetary policy when policymakers view both approaches as providing a reasonable fit to the data.
- Policy dilemma from those two alternative models.
- Optimal simple rule with model uncertainty.
- Policy is generally biased towards stabilizing wage inflation.

Thank you!