Discussion: Inflation Targeting and Asset Prices: Christopher Allsopp

Sean Holly
Cambridge University

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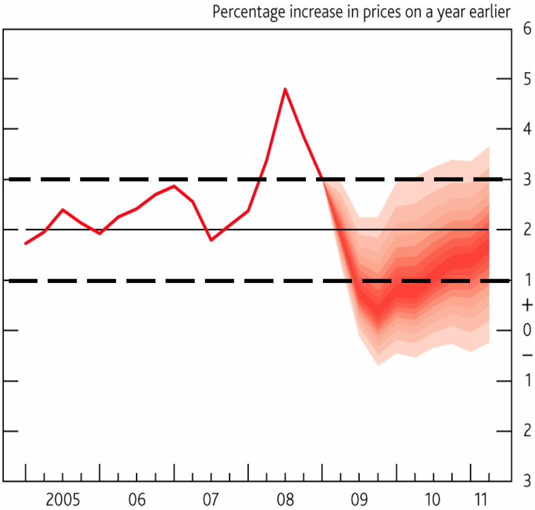
- Now the expectation is of undershooting. From the May 2009 Inflation Report:


Percentage increase in prices on a year earlier
6
5
4
3
2
1
+
0
–
1
2
3
2005
06
07
08
09
10
11

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- in particular in the upswing of the cycle.
- A policy that 'leans against the wind' as well as responding to movements in inflation and output is more likely to deliver low volatility in inflation and output over the longer term.
- Those advocating a 'lean against the wind' approach are not of course for one moment suggesting that there could ever be a precise target for any asset price.

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- In an inflation targeting regime there are advantages to the Monetary Authority having a clear mandate that can be communicated unambiguously to the public.
- Nevertheless, in practice the conduct of policy is more pragmatic. Making decisions in real time involves judgement.

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- Of course this is not 'leaning into the wind'.
- More a pragmatic response to the information available at the time decisions are made.
- But to go beyond this and to formalise 'leaning into the wind' as part of a mandate runs the risk of sending confusing signals to the public.

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- But this, perhaps, is hardly surprising.