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Title	The Role of Inflation Target Adjustment in Stabilization Policy
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Abstract	How and under what circumstances can adjusting the inflation target serve as a stabilization-policy tool and contribute to welfare improvement? We answer these questions quantitatively with a standard New Keynesian model that includes cost-push type shocks which create a trade-off between inflation and output gap stabilization. We show that this trade-off leads to a non-trivial welfare cost under a standard Taylor rule, even with optimized policy coefficients. We then propose an additional policy tool of an inflation target rule and find that the optimal target needs to be adjusted in a persistent manner and in the opposite direction to the realization of a cost-push shock. The inflation target rule, combined with a Taylor rule, significantly reduces fluctuations in inflation originating from the cost-push shocks and mitigates the policy trade-off, resulting in a similar level of welfare to that associated with the Ramsey optimal policy. The welfare implications of the inflation target rule are more pronounced under a flatter Phillips curve.
Keywords	Welfare analysis; Monetary policy; Cost-push shocks; Medium-run inflation targeting; Flat Phillips curve;
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