



## International Finance Discussion Papers: The Optimal Degree of Discretion in Monetary Policy (Paperback)

By Susan Athey

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.How much discretion should the monetary authority have in setting its policy? This question is analyzed in an economy with an agreed-upon social welfare function that depends on the randomly fluctuating state of the economy. The monetary authority has private information about that state. In the model, well-designed rules trade off society's desire to give the monetary authority discretion to react to its private information against society's need to guard against the time inconsistency problem arising from the temptation to stimulate the economy with unexpected inflation. Although this dynamic mechanism design problem seems complex, society can implement the optimal policy simply by legislating an inflation cap that specifies the highest allowable inflation rate. The more severe the time inconsistency problem, the more tightly the cap constrains policy and the smaller is the degree of discretion. As this problem becomes sufficiently severe, the optimal degree of discretion is none.



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