Essays on Economic Policy (ESPE in Spanish) - Optimal Monetary Policy and Asset Prices: The case of Colombia

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AUTHOR OR EDITOR Martha López Juan David Prada Publication Date: Sunday, 1 of August 2010
The unfolding of the 2007 world financial and economic crisis has highlighted the vulnerability of real economic activity to strong fluctuations in asset prices. Which is the optimal monetary policy in an economy like the Colombian that is exposed to swings in asset prices? What is the implication, in terms of central bank losses, when it follows a standard simple rule instead of the optimal monetary policy? To answer these questions, we use a Dynamic Stochastic General Equilibrium (DSGE) model with physical capital and sticky wages for the Colombian economy and derive the optimal monetary policy. Then, we explore the dynamic effects of news about a future technology improvement, which turns out ex post to be overoptimistic, under the optimal policy rule and under alternative specifications of simple rules and definitions of the output gap.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/optimal-monetary-policy-and-asset-prices