



Optimal Monetary Policy and Asset Prices: the Case of Colombia

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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 alternative specifications of simple rules and definitions of output gap.

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