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Transparency: can central banks commit to truthful communication?

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AUTHOR OR EDITOR Julián Parra
To evaluate whether transparency is beneficial, it is usual to assume that the central bank may choose one of two options, opacity versus truthful communication. However, the monetary policymaker may have incentives to misrepresent private information so as to reduce economic volatility by manipulating inflation expectations. Using a standard model, this paper points out the fact that if misrepresentation is included as a possible action there is no rational expectations equilibrium with inflation announcements. Therefore, even if transparency is preferred over secrecy the central bank cannot credibly commit to truth-telling, in contrast to what is commonly assumed in the literature on transparency.

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