Price-Level Targeting: an omelette that requires breaking some Inflation-Targeting eggs?

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This paper can be divided into two main parts. The first one, using a simple example by Minford (2004) and Hatcher (2011), gives the reader a basic introduction to understand the comparison between two monetary-policy regimes: Inflation Targeting (IT) and Price-Level Targeting (PLT). The second part, using a model with a New Keynesian Phillips curve and a loss function (both of which incorporate partial indexation to lagged inflation), finds that for standard values of underlying parameters (i) the social loss associated to macroeconomic volatility may decrease about 29% by switching from IT to PLT and (ii) only when the initial level of indexation to lagged inflation is higher than 65% then it is better not to switch to PLT.

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