Essays on Economic Policy (ESPE in Spanish) - Optimal v. Simple Financial Policy Rules in a Production Economy with “Liability Dollarization”

Download Keep in mind
In the journal Essays on Economic Policy (ESPE) - we disclose the results and policy proposals that arise from academic research carried out at the *Banco de la República*. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of *Banco de la República* or that of its Board of Directors.

AUTHOR OR EDITOR Juan M. Hernandez Enrique G. Mendoza AUTHORS AND/OR EDITORS Juan M. Hernandez Enrique G. Mendoza Publication Date: Sunday, 30 of April 2017 Abstract
We evaluate the effectiveness of financial policy rules in a small open economy with production, liability dollarization and “unconventional shocks” (global liquidity shifts and news about future fundamentals). Tradable and nontradable final goods are produced with tradable inputs. Debt is denominated in units of tradables and cannot exceed a fraction of the market value of total income. Optimal policy has a macroprudential or ex-ante component (a debt tax levied at date t only when the credit constraint may bind at t+1), and ex-post components (sectoral production taxes/subsidies used when the constraint binds). The optimal policy reduces sharply the frequency and severity of financial crises but is also very complex. Simple policies are less effective and can be welfare reducing.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/optimal-v-simple-nancial-policy-rules