

Inflation Persistence and a New Phillips Curve

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Heterogeneous Agents in Macroeconomic Models

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Introduction

- Nice and well written paper. Important topic. I learned a lot.
- Language oriented towards insiders a bit.

- **Issue:** Lack of inflation persistence in New Keynesian models.
- Typically addressed with ad hoc assumptions like inflation indexation, Christiano et al (2005).
- Lack of persistence a very old issue already in RBC models, see Kydland, Prescott (1982), later e.g. Mackowiak, Wiederholt (2009).

Menu cost models to address inflation persistence?

- Auclert et al. (2024): Menu costs models deliver same New Keynesian Phillips Curve as time-dependent models (Calvo).
- As a result, even the menu-cost models do not deliver persistent inflation (that we see in the data).

This paper shows that:

- That conclusion is only true for certain types of nominal demand shocks (random walk in levels, i.i.d. in growth).
- With AR(1) in nominal demand growth (as in the data), the model generates persistent inflation.
- In a model not subject to Lucas critique, cool!

- ① NKPC exhibits front-loading.
- ② True also for level shocks to nominal demand (in this model).
- ③ With persistent nominal demand growth shocks, (some) firms will wait to adjust their prices

⇒ **inflation persistence**

Further Results

- Most action comes from the extensive margin not present in Calvo type models.
- In the NKPC regressions, inflation persistence is directly inherited from nominal growth persistence.
- The 'fix' is straightforward, has support in the data.

Why should we care???

- Policy implications!
- Mentioned as topic for future research.
- In my mind, it should be part of the paper!

Further Questions and Suggestions

- Are we keeping a gentlemanly distance between assumptions and results?
- I am not fully convinced by the Model Fit section. Do more. Match also volatility? Are there aggregate TFP shocks?
- Put some more flesh for more general audiences.
 - ① Eq (4) is CPI. Is it consistent with CPI in the data?
 - ② Is there a degree of freedom in these models?
 - ③ Are IRFs symmetric?
 - ④ Lucas critique is OK wrt nominal demand growth shocks?
- Fix the typos, e.g., eq (7) and (8) has γ . Text has α^π .
- Dominant paradigm for studying BCs with no capital? What does adding capital do to inflation persistence?

Summary

- ① Nice paper.
- ② Thanks for having me discuss it.
- ③ Curious about further work, policy implications ...