

Discussion:
Monetary Policy Trade-offs Under Imperfect Central Bank Information
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What this paper asks — and why it matters

- **Question:** lean against demand, look through supply — but can the RBA tell them apart in real time? What does getting it wrong cost, and **who** pays?
- **Genuine contribution:** recovering the RBA's own demand/supply reading from its forecast revisions — a real-time **self-audit tool**, useful well beyond this paper
- Bridges CB information frictions and distributional policy in HANK — two literatures that rarely meet. Timely, ambitious, and I enjoyed it

How the “full information” rule is obtained

- Targeted Taylor rule — desired ϕ applied to the perceived components:

$$\begin{aligned}i_t &= \rho_r i_{t-1} + (1 - \rho_r) \left[i^* + \phi^s E^{CB} \pi_t^s + \phi^d E^{CB} \pi_t^d + \phi_y (U_t - \bar{U}) \right] + \varepsilon_t^i \\&= \rho_r i_{t-1} + (1 - \rho_r) \left[i^* + \phi^s \left(\omega^s \phi^s + (1 - \omega^d) \phi^s \right) \pi_t^s + \phi^d \left(\omega^d \phi^d + (1 - \omega^s) \phi^d \right) \pi_t^d + \phi_y (U_t - \bar{U}) \right] + \varepsilon_t^i \\&= \rho_r i_{t-1} + (1 - \rho_r) \left[i^* + \tilde{\phi}^s \pi_t^s + \tilde{\phi}^d \pi_t^d + \phi_y (U_t - \bar{U}) \right] + \varepsilon_t^i\end{aligned}$$

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|---|--|
| (i) Estimate the HANK model, 1992–2025 | $\Rightarrow \tilde{\phi} = (1.35, 1.78) \quad [\rho_r = 0.79, \phi_y = 0.22]$ |
| [2pt] (ii) Measure forecasts against the benchmark | $\Rightarrow \omega^s = 0.67, \omega^d = 0.66$ |
| [2pt] (iii) Set $\omega = 1$ | $\Rightarrow \text{“full information” rule} = (0.92, 2.22)$ |

- The counterfactual therefore swaps (1.35, 1.78) for (0.92, 2.22), everything else held fixed

Comment 1 — the prescription is assumed, not derived

- The whole exercise rests on “lean against demand, look through supply”. **Where is it established in the paper?**
 - (a) Imported in fn. 1 — but Blanchard–Galí show trade-offs exist, not which way to lean
 - (b) The estimated $\tilde{\phi}^d > \tilde{\phi}^s$ — a description of past behaviour, not a norm (Comment 2)
 - (c) The paper’s own welfare calculation — the metric is tilted (Comment 5)
- **And it is not a general result**
 - Divine coincidence is knife-edge: it needs essentially one distortion. Here there are uninsured risk, two sectors, terms of trade, markups, taxes, sticky prices and wages — their interaction breaks it, so demand shocks also open trade-offs
 - Direction is not implied: under standard RANK welfare the optimal cost-push response is large; HANK can reverse that, but through the weight on activity, which rests on an exposure (Comment 6)
 - Look-through needs conditions: **flexible-price relative-price** shocks (Aoki 2001), **transitory** shocks, **anchored expectations**
- **Ask**: Is this a positive paper about RBA behaviour, or a normative one? The positive part: convincing; the normative part rests on a premise that is imported rather than derived

Comment 2 — the counterfactual is a different rule, not better information

- Sec. 5: “a counterfactual in which the central bank observes the underlying shocks without uncertainty” — but it observes them in **both** cases
 - E^{CB} is notation only: Eqs. 16–17 make it a deterministic mix of the true components — no information set, no updating
 - So estimation uses the true π^s, π^d , and so does the private sector; the likelihood pins down two numbers
 - The counterfactual sets $\omega = 1$: it replaces (1.35, 1.78) with (0.92, 2.22). Two full-information rules, same shocks
- **The friction is layered on after estimation, not estimated**
 - A real friction puts noise in the policy rate and moves the likelihood — and every other parameter
 - “The CB wanted 0.92” assumes a naive CB; one that corrects for its own ω has desired responses (1.35, 1.78) and no gap at all
- **Ask:** noisy signals and filtering inside the model — then ask whether a targeted rule beats a plain one

Comment 3 — ω carries a lot of weight; can it bear it?

- **What it is.** Revisions also reflect data revisions, potential output and judgement; the benchmark is itself set-identified (Read 2026). So ω is an **agreement rate** between two classifications, not a correctness rate
- **What it does.** Yet this one number turns the estimated rule into a “desired” one — and $\phi^s < 1$ is not robust to which ω is used:

Specification	ω^s	ω^d	ϕ^s	ϕ^d
Used in the model	0.67	0.66	0.91	2.23
Table 1 / abstract (73%, 66%)	0.73	0.66	1.04	2.16
Including Covid	0.75	0.80	1.15	1.94
One-step ahead	0.85	0.68	1.22	2.04
Underlying CPI	0.70	0.56	0.84	2.51

- Only **2 of 12** Table 4 columns give $\phi^s < 1$
- **Asks:** CIs for ω carried through to welfare

Comment 4 — how are “demand” and “supply” assigned?

- By **origin**, in one sentence: productivity and markups are supply, “all other shocks” demand — oil is never stated, so it lands in demand by default
- **But in this model almost every shock generates a trade-off**
 - Several “demand” shocks move the efficient allocation themselves: MEI shifts capital, oil and UIP are cost-push for the CPI — and those two are exactly where misattribution raises welfare (Fig. 11)
 - With uninsured risk, two sectors and incomplete pass-through, stabilising inflation does not close the welfare-relevant gaps
 - So “demand” $\neq$ divine coincidence, and the origin label carries no policy content
- **And in HANK the “supply” box is partly a redistribution box**
 - Markup shocks move income from wages to profits, concentrated at the top — the paper’s own explanation of Fig. 6
 - Is the headline about supply, or about redistributive shocks? TFP vs markups would separate them

Comment 5 — welfare: first order, and the direction is built in

- Sec. 4.3 notes that unconditional welfare needs a second-order solution but the welfare numbers here are **first-order**
 - But ranking two rules under mean-zero shocks i_s a second-order question: the first-order terms wash out in expectation
 - Inefficient s.s. $\Rightarrow W_x E[x]$ terms; Rotemberg inflation costs are second order, hence largely absent
 - Table 3: the counterfactual cuts $\text{sd}(Y)$ $0.96 \rightarrow 0.53$ but raises $\text{sd}(\pi)$ $0.28 \rightarrow 0.48$ — the metric rewards the first, barely penalises the second. **Is “look through supply” partly an artefact?**
- **The direction is largely built in**
 - $\tilde{\phi}^d > \tilde{\phi}^s, \omega > 0.5 \Rightarrow$ by construction, not by discovery. The counterfactual can only be “more on demand, less on supply”
- **Ask:** solve for the optimal (ϕ^s, ϕ^d) under second-order welfare, and show where the estimated rule and the counterfactual sit relative to it --- and relative to the best single-coefficient rule

Comment 6 — does the key covariance hold in Australia?

- The distributional result rests on low-wealth households' disposable income and consumption being more exposed to the cycle
- **HANKSSON** (Bilbiie, Galaasen, Gürkaynak, Maehlum & Molnar 2025, Norway): present in labour earnings, gone in disposable income and consumption — taxes and transfers insure
- **Australia** (Stone 2016, HILDA): bottom-quintile labour income is the most cyclical, but total income much less so — transfers buffer, and GFC payments offset part of the loss
- Calibration targets pre-tax earnings (PLIDA) and unemployment risk (HILDA), not disposable-income or consumption exposure
 - **Ask:** model vs data exposure by **wealth**, including within-group dispersion
 - **Policy:** if fiscal insurance is strong, the distributional job is mainly fiscal

Final remarks

- An important paper: it opens the black box of **real-time diagnosis**
- **What survives:** the RBA's implied reading and the benchmark disagree meaningfully $\Rightarrow$ use forecasts to audit, and to adjust, policy responses
- **What is not yet established:** an information friction in the model; the size and distribution of the gains; “look through more”; “the RBA wanted $\phi^s < 1$ ”
- **Three things would make it much stronger**
 1. Signal extraction: is a targeted rule worth it under noise?
 2. Second-order welfare, against the optimal rule
 3. Check the exposure covariance in Australian micro data
- I learned a lot — thank you