Discussion of “Monetary Policy in a Small Open Economy with Multiple Monetary Assets”
by Van H. Nguyen

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DSGE Modelling for Emerging Open Economies

May 18, 2022

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  $\longrightarrow$ Simple-sum: $SM_t = Ca_t + D_t$
  $\longrightarrow$ Monetary Base: $MB_t = A_t = Ca_t + \tau D_t$
  $\longrightarrow$ Divisia: $s_t^{Ca} = \frac{u_t^{Ca} Ca_t}{u_t^{Ca} Ca_t + u_t^D D_t}$, $s_t^D = \frac{u_t^D D_t}{u_t^{Ca} Ca_t + u_t^D D_t}$

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- Implications:
  - $\longrightarrow$ Divisia measure is strictly better than simple-sum measure and monetary base in tackling the movement of money
  - $\longrightarrow$ Openness has an inverse relation with home-bias in consumption, on the volatility of macro variables

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The U_t considered is:

$$U_t = \ln C_t - \psi_N \frac{N_t^{1+\xi}}{1+\xi} + \psi_M \ln\left(\frac{M_t}{P_t}\right) \tag{5}$$

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- $\sigma > \chi$: consumption and real balances are compliments
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  $\longrightarrow$ estimates of χ are lower than conventional numbers for σ.

An alternate money supply rule

Piazzesi, Rogers, and Schneider (2022) considers the money supply rule

$$\frac{D_t}{P_t} = D_t^r + \mu \left(\frac{D_{t-1}}{P_t} - D_t^r \right) \tag{7}$$

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$\longrightarrow$ If $\mu > 0$, it captures the short term nominal rigidity in the money supply: while inflation can temporarily erode the supply of real balances, the government gradually steers that supply towards its desired path $D_t^r > 0$.

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- How about:

$$r_t = (1-\rho_r)r + \rho_r r_{t-1} + (1-\rho_r)(\rho_\pi \hat{\pi}_{H,t} + \rho_y \hat{y}_t) + \epsilon_{r,t} \tag{9}$$

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- 'I' and 'We' used alternatively throughout the text

Conclusion

- $\longrightarrow$ A great paper!
- $\longrightarrow$ Lots of food for thought;
- $\longrightarrow$ Still some way to go in modeling the money supply in full;
- $\longrightarrow$ Observance is required in presenting the results.

Thank you!

References

Faia, E., and T. Monacelli (2008): "Optimal monetary policy in a small open economy with home bias," *Journal of Money, credit and Banking*, 40(4), 721–750.

Piazzesi, M., C. Rogers, and M. Schneider (2022): "Money and banking in a New Keynesian model," *Standford WP*.