Discussion of "The Limits of Forward Guidance" by Jeffrey R. Campbell, Filippo Ferroni, Jonas D. M. Fisher and Leonardo Melosi

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The Forward Guidance Puzzle

- *The puzzle: the effects of a commitment to maintain an interest rate peg for an additional period increases without bound with the horizon of the peg*

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  3. *Structural factors*
     - *Multiple interest rates:* Campbell et al (2017), Piazzesi, Rogers and Schnieder (2019)
     - *Limited communication:* Woodford (2003), This paper

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- Framework: add imperfect communication to a medium-scale NK model.
- This builds closely on Campbell et al (2017), who estimate NK model using information on interest rate expectations
- In their model, the Fed's ability to affect expectations far in the future is limited
- They show that imperfect communication delays and amplifies the response to monetary shocks (Baker, Bloom and Davis (2016))

Comment 1: Identification of Limited Communication

- **Identification of noise:** degree to which households anticipate the future deviation from the monetary rule
  - The data on interest rate expectations gives you the degree to which agents anticipate the change in the interest rate

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    - Question 1: What about all the periods in which there is no signal?
   - Question 2: How does this relate to estimation based on particular episodes?

Comment 2: Reduced-Form Estimates of Expectations and Forward Guidance

- Data: Blue Chip Professional Forecasters from June 2008- February 2015 of variable y at horizon h

$$\Delta f(y, h)_{i.t} = \gamma_0 + \gamma_1'(\text{Macro news and Asset Price Changes })+$$
$$\beta(\text{FOMC Dummy}) + \epsilon_{i,t}$$

- Identification strategy:

  1. Control for all economic news released between forecasts
  2. FOMC Dummy: residual variation attributable to the FOMC announcement

Forecast of 3-month TBill
(i.e. $E_t[\theta_t] - E_{t-1}\theta_t$)
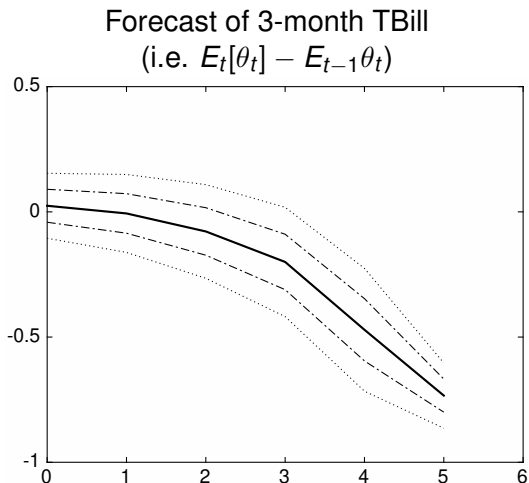
Source: Del Negro, Giannoni and Patterson (2015), coefficient on dummy for August 2011. Data from 6/2008-2/2015.

- Data: Blue Chip Professional Forecasters from June 2008-February 2015 of variable y at horizon h

$$\Delta f(y, h)_{i.t} = \gamma_0 + \gamma_1' (\text{Macro news and Asset Price Changes}) +$$
$$\beta(\text{FOMC description dummies}) + \epsilon_{i,t}$$

- Identification strategy:
    1. Control for all economic news released between forecasts
    2. Dummies for tone of language, QE announcements, etc. $\rightarrow$ residual variation in the forecasts attributable to calendar-based forward guidance

Comment 2: Calendar-based forward guidance affects interest rate expectations
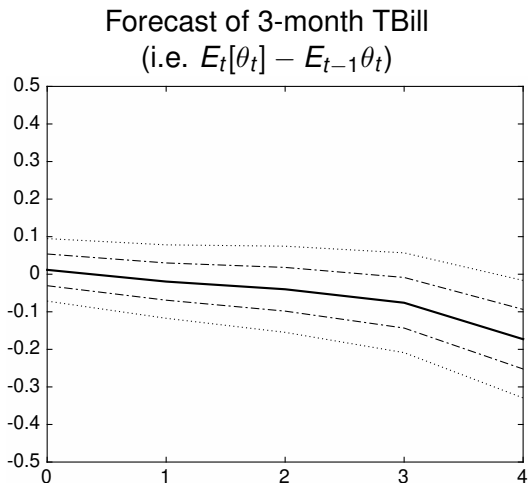
Forecast of 3-month TBill
(i.e. $E_t[\theta_t] - E_{t-1}\theta_t$)

Source: Del Negro, Giannoni and Patterson (2015), coefficient on calendar-based forward guidance. 6/2008-2/2015.

Comment 2: Calendar-based forward guidance affects GDP and inflation
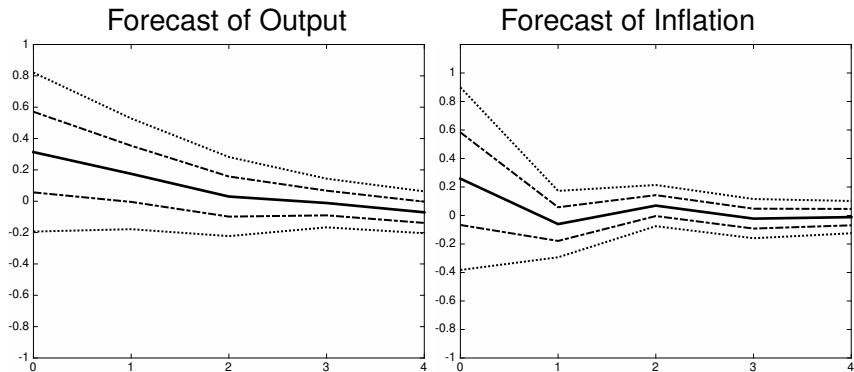
Forecast of Output   Forecast of Inflation

Source: Del Negro, Giannoni and Patterson (2015), coefficient on calendar-based forward guidance. 6/2008-2/2015.

Comment 2: Would this model produce similar estimates?

- Do these interest rate expectations look like the model's news shocks for the calendar-based forward guidance episodes?

    - I suspect the model will produce similar results

- What happens to expectations if they implement an experiment like the extension of the peg in 2012Q3?

- Does this solve the puzzle?

  - Can this be distinguished from other mechanisms affecting expectations? (e.g. rational inattention)

  - This mechanism implies that if the Fed could communicate perfectly, forward guidance would be very effective

  - Other solutions involving discounting in the Euler equation imply otherwise

- Ambitious paper!
- It's an intuitive and plausible mechanism that they have gotten traction on
- Very policy relevant – important implications for central bank communications