

Workshop IV: Inflation Targeting

Make sure you have read the article by Bernanke and Mishkin, "Inflation Targeting: A New Framework for Monetary Policy?" in *Journal of Economic Perspectives*, 11(2), Spring 1997, pp. 97 – 116.

Please elect someone to report what your group concludes and write up the answers to the questions. Submit your report on the date that I specify.

1. What is meant by "Inflation Targeting"? What are some examples of countries that have adopted inflation targeting?
2. What is the difference between targeting a particular inflation rate versus a particular price level? What are some advantages and disadvantages of both approaches? Which might be better suited to achieve "price stability" in your opinion?
3. What are some of the benefits of targeting a range rather than a particular inflation rate? What might some of the costs be?
4. Is inflation targeting a "rule" or a framework? What is the distinction between the two? What are some of the criticisms of viewing inflation targeting as an ironclad rule?
5. What are some of the benefits to be offered by adopting an inflation targeting framework?
6. Consider some of the alternatives to inflation targeting. Which kind of framework might be best suited to respond to goods market shocks, money market shocks and supply side shocks? Could inflation targeting actually worsen the effects of any of these shocks?