Discussion of ‘The Welfare Cost of Inflation in some OECD Economies’
by Boel and Camera

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There seems to be significant changes in the volatility of US GDP, US inflation, US monetary policy and world oil prices.

- Change in how the US economy uses oil.
- Change in monetary policy. (pre- and post-Volcker)
- Useful to think about all (or some) of these changes as endogenous.
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Summary of the Paper

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- Main Results (percentage of volatility reduction due to each factor)
Comparison to the Literature

- Important advantages vs. Leduc and Sill (2007):
  - Estimated vs. Calibrated.
  - An explicit oil-producing sector.
  - Dependence on oil is governed by a parameter.

- Results are somewhat similar:
  - Leduc and Sill (2007): 17% of reduction in volatility of output and 29% of reduction in volatility of inflation is due to policy. (rest are shocks) Not exactly same counter-factual exercise.

- Key difference: Effect of change in dependence on oil.
Important step: endogenizing oil output (and price) in a model for the US...

... but US is not the sole consumer of oil. (about 30% of OPEC output)

Maybe add a rest-of-the-world demand shock to the model, calibrating the share of US consumption. (Use GDP of G7 minus US plus China and India as an observable)

Not clear if this will affect the results. (Oil to US GDP link is important for results.)
Main Comments / Questions

- Unconditional variance-decompositions show virtually 100% of variations in oil prices are explained by oil-related shocks. Is that realistic? What has endogenizing oil output bought us?

- In popular press we hear (especially recently) that oil prices fall due to concerns about the US economy. Maybe they do not survive to a quarterly frequency?


- Maybe we should see some impulse-responses to see the short-run feedback from US GDP to oil prices.
One of the key implications of the model: Due to smaller oil shocks and due to (possible) feedback from the US economy, oil prices are less volatile.

Did the volatility of real oil price really go down after 1984?

The standard deviation of growth rate of real oil price: 19 before 1984, 13 after 1984. (similar numbers for HP filtered or levels)
Cheap Shots / Small Comments

- The discount-factor shock sounds non-standard. Some other demand shock?
- In the calculation of the elasticity of oil of oil in production, why is nominal output defined as $PQ = PY + P_OO$?
- Why is labor supply elasticity and Calvo parameter allowed to vary across the two sub-periods? Related, the Calvo parameter in the post-1984 estimation (0.47) could be too low for some people’s tastes.
- Why doesn’t the model implied unconditional variances match those in the data?
- An alternative question to ask: how much “good luck” do we need to explain the great moderation?
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A more general analysis of business cycles (of US, world?) and “oil cycles”:

- Allow for time-variation in volatilities, monetary policy rules and ...
- Allow the agents to form expectations over future changes.
- Question: How much of the volatility of cyclical fluctuations in output can be explained by oil-related shocks / changes in elasticities, when TFP shocks are also present? Which business cycle(s) are really due to oil-related shocks? How much of TFP is actually coming from oil-related shocks.
- There are non-structural answers to these questions in the literature but this setup would be especially useful to answer this question.
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