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**Discussion of „Uncertainty over Models and Data:
The Rise and Fall of American Inflation“**

Comments on Seth Pruitt's
**Uncertainty over Models and Data:
The Rise and Fall of American Inflation**

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- Large swings in US inflation during the 70's and early 80's – almost nonstationary
- Several 'classical' explanations:
 - Changing government policy responses
 - Changing Fed optimality criteria
- Agents adjusting their models/beliefs in response to forecast errors may also be an explanation.

Quick summary

- How far should one go when trying to capture the adjustment?
- Seth's argument:
 - Agents are aware of current data possibly being revised;
 - since they use this very data to evaluate their models, ...
 - ... they do not adjust the models by as much as they would have if not aware of data uncertainty.
 - So a good explanation has to account for agents accounting for data uncertainty.
- (And it turns out that the swings in US inflation are explained much better this way.)

The motivating examples

- The arguments change when agents have an asymmetric loss function.
- Still, a getting positively biased picture of an agent's model volatility is plausible when shocks (data errors and parameter shocks) are independent (rather than just uncorrelated).
- ... But are they?
- Many nowcasts and even final data releases are, to some extent, model-based – and thus both subject to parameter shocks.

The model

- Inflation uncertainty?
- What matters is how the Fed treats inflation, ...
- ... not that certain data are not revised.
- Would allowing for (permanent) errors-in-variables in inflation change the empirical results?

The estimation

- Sensitivity to the choice of the prior?
- Sensitivity to the choice of the filter?
- Effects of non-Gaussianity?

- The paper examined the effects of ignoring data uncertainty when explaining agents' response to forecast errors...
- ... and showed them to be of importance:
 - theoretically, and
 - in terms of explaining the rise and fall of US inflation.
- More precisely, the Fed's behavior is consistent with its being aware of data uncertainty.