Model Uncertainty Roundtable Discussion

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Model Uncertainty and Monetary Policy Design
Bank of Korea

Views expressed are those of the author and do not necessarily reflect the views of the Federal Reserve System.

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- Lesson: Adjustment is everything.
- Macroeconomy may be vulnerable to "big ticket losses" during adjustment.

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- How can we cope with these doubts?
  - In particular: Since the models are about people, are our doubts also their doubts?

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  - Backroom: Stationarity assumptions commonplace, but data are often untrusted.
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- Implication: The focus in the policy world is on determining the state of the system by looking at lots of data.

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- It would be the Romer's pure forecast exercise if we take the Prescott view.

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- Related work by Hamilton.

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- In the recent financial crisis ...
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  - Careful readers of Woodford's paper at this conference would see expectational stability in play there as well.

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- The 1970s as a similar beliefs-twisting event?

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  - The fit to data gives us confidence that we are on the right track with our economic concepts.
  - But we do not want to push so hard in getting a good fit that we lose our economic grounding altogether.

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- This has been an excellent conference on critical topics at the research frontier of macroeconomics.