Oil Shocks and the Zero Bound on Nominal Interest Rates

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Discussion by Zeno Enders

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Summary

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Interesting question with surprising answer.
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More or less standard two-country business cycle model
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• Sticky prices and wages
• Lagged price and wage indexation
• Consumption habits
• Investment adjustment costs
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Foreign demand for oil increases gradually

→ Gap between actual (zero) and targeted nominal rates is reduced

Real interest rate declines

While gross output is lower with oil shock, oil imports (used in production) fall

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Discussion

• Path of oil price
• Calibration
• Monetary policy
• Sensitivity
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(China’s PMI fell from 57 to 51 points since January)
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Furthermore, oil price is problematic as vehicle for anticipated inflation
Path of oil price

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RW: less expected inflation, GDP effects might vanish
Calibration

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Erceg & Lindé: case for flatter Philips Curve
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In this case, output effect much smaller
Monetary Policy

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Even without, might be optimal to stay longer at the zlb, thereby changing dynamics (Eggerston/Woodford ’03).
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How important oil price elasticity of 0.38? (large price movements)
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Authors provide clear intuition about effects
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Conduct several robustness checks
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Suggestions:
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  - Welfare: is this oil shock beneficial?
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Suggestions:

• Clearly state motivation
• Welfare: is this oil shock beneficial?
• Policy implication: anticipated import/energy tax?