Discussion of Berentsen/Monnet, "Channel Systems"

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[1] Any views expressed are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of St. Louis, the Federal Open Market Committee, or the Federal Reserve System.

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  - Try to characterize optimal policy in this setting.

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    2. No open market operations.

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  - But you could think about changing the width of the corridor.
- Money market rates tend to be in the middle of the corridor.

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    - It gives us a template for pursuing research ideas in this area.
- In the minds of many, interest rate rules are tied up with the disagreeable sticky price assumption.
- But obviously, interest rate rules do not have to be studied in tandem with that assumption.

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- Money is essential.

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  - This creates a role for both the money market and the standing facility of the central bank.

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  - A key point of this paper.

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- This means no trade in the money market.
- Agents only hold collateral if its liquidity value is positive.
- Proposition 2. Never optimal to set the width of the corridor to zero.
  - The use of collateral is costly, but increases consumption, so equate cost to benefit at the margin.

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- Proposition 5: For $\epsilon < \epsilon_1$ symmetric stationary equilibrium exists.

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  - Do we observe this, is it quantitatively important?
  - A view of policymakers unwittingly changing policy, since most (nearly all) discussion is in terms of the target rate.

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2. One needs instead an "interest rate corridor rule."
3. Details of implementation of an interest rate rule matter for the characterization of optimal monetary policy.