Allan Meltzer and the Search for a Nominal Anchor

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Meltzer’s Contributions to Monetary Economics and Public Policy
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Any opinions expressed here are my own and do not necessarily reflect those of the Federal Open Market Committee.
Figure 1. Slope of the Phillips Curve

Phillips curve slope in theory

• In a standard NK model, the slope of the Phillips curve—the coefficient on the output gap in a regression of the inflation gap on the output gap—is given by

\[
\gamma = \frac{\text{Cov}(\pi_t, y_t)}{\text{Var}(y_t)} = \frac{\kappa \sigma_\varepsilon^2 - \phi_\pi (\sigma + \phi_y) \sigma_u^2}{\sigma_\varepsilon^2 + \phi_\pi^2 \sigma_u^2}.
\]

- \( \sigma_\varepsilon^2, \sigma_u^2 \): variance of natural rate and cost-push shocks
- \( \phi_\pi, \phi_y \): Taylor rule coefficients on inflation and output
- \( \kappa \): slope of the structural Phillips curve
- \( 1/\sigma \): intertemporal elasticity of substitution
Figure 2. The U.S. Price Level Path

Note: De facto price level targeting occurred from the mid-1990s to 2012, but the actual price level has since fallen off the price level path. Sources: Bureau of Economic Analysis and author’s calculations. Last observation: November 2017.
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