

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

[Martha López Juan David Prada](#)

The unfolding of the 2007 world financial and economic crisis has highlighted the vulnerability of real economic activity to strong fluctuations in asset prices. Which is the optimal monetary policy in an economy like the Colombian that is exposed to swings in asset prices? What is the implication in terms of Central Bank losses when it follows a standard simple rule instead of the optimal monetary policy? To answer these questions we use a Dynamic Stochastic General Equilibrium (DSGE) model with physical capital and sticky wages for the Colombian economy and derive the optimal monetary policy. Then, we explore the dynamic effects of news about a future technology improvement which turns out ex post to

---

be overoptimistic under the optimal policy rule and alternative specifications of simple rules and definitions of output gap.

The remaining errors are ours. The views expressed in the paper are those of the authors and do not represent those of the Banco de la República or its Board of Directors.