

# Price-Level Targeting: an omelette that requires breaking some Inflation-Targeting eggs?

Working Paper 783 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 Luisa F. Acuña, Julian A. Parra AUTHORS AND/OR EDITORS Luisa F. Acuña

This paper can be divided into two main parts. The first one, using a simple example by Minford (2004) and Hatcher (2011), gives the reader a basic introduction to understand the comparison between two monetary-policy regimes: Inflation Targeting (IT) and Price-Level Targeting (PLT). The second part, using a model with a New Keynesian Phillips curve and a loss function (both of which incorporate partial indexation to lagged inflation), finds that for standard values of underlying parameters (i) the social loss associated to macroeconomic volatility may decrease about 29% by switching from IT to PLT and (ii) only when the initial level of indexation to lagged inflation is higher than 65% then it is better not to switch to PLT.

Documento actualizado: el 03 de enero de 2014 a las 10:35 a. m.